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**OPERATION OF THE GENERALIZED
SYSTEM OF PREFERENCES**

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HEARING

OCT 2 1980

BEFORE THE
SUBCOMMITTEE ON TRADE

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DEPOSITORY 376

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

THE OPERATION OF THE "U.S. GENERALIZED SYSTEM OF
PREFERENCES" UNDER TITLE V OF THE TRADE ACT OF 1974

MAY 8, 1980

Serial 96-96

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OPERATION OF THE GENERALIZED SYSTEM OF PREFERENCES

THURSDAY, MAY 8, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met at 10:06 a.m., pursuant to notice, in room 334, Cannon House Office Building, Hon. Charles A. Vanik (chairman of subcommittee) presiding.

EDITOR'S NOTE.—The subjects of this day's hearing were so diverse that the testimony devoted to GSP is being printed separately. That portion of the hearing held on miscellaneous bills is being printed with other hearings held on March 17 and April 17, 1980, entitled "Certain Trade and Tariff Bills."]

Mr. VANIK. The subcommittee will be in order.

Today we have a full hearing agenda focusing primarily on the operation of the "U.S. Generalized System of Preferences" under the Trade Act of 1974 as well as on eight miscellaneous tariff bills. We will hear administration views first on each of the eight bills; then the U.S. Trade Representative's Office will testify on behalf of administration on the GSP program. The administration testimony will be followed by private sector witnesses testifying first on P, then on the tariff bills.

Since we have limited time available and must vacate this room at 12:00 p.m., witnesses should summarize their statements with the understanding that their full statement will be printed in the hearing record. The hearing on GSP will focus particularly on the report from the President required under section 504 of the Trade Act on the operation of the program during its first 5 years, submitted to the Congress on April 17.

The subcommittee expressed its concern during consideration of the Trade and Tariff Act of 1979 implementing legislation that five more advanced developing countries—Taiwan, Korea, Hong Kong, Brazil, and Mexico—are receiving 68 percent of total GSP benefits whereas middle level and least developed countries receive only 9 percent, many countries no benefits at all. The Committee on Ways and Means report on the Trade and Tariff Act of 1979 expressed the expectation that the President's report on the operation of the GSP program during its first 5 years should consider suggestions made to the subcommittee and recommend changes in the program to promote "graduation" of more advanced developing countries and industries and greater distribution of benefits to less competitive developing countries and industries.

The report reflects considerable analysis and work by the executive branch agencies and particularly the Office of the U.S. Trade Representative in reviewing the program. However, I am frankly disappointed in the report, not so much for what it says, but for what it does not say. There is no indication in the report of what consideration was given to private sector suggestions for specific changes in controversial aspects of the program or why they were rejected. The brief reference to the administration's recommendation to increase "graduation" by using existing authority to limit benefits for more-developed beneficiaries in competitive products is too vague to know how the objective will be accomplished.

In short, it appears that in these respects the report was written more with a view to avoiding adverse reaction from foreign countries concerned about possible cutbacks in their benefits than to a thorough review of the pros and cons of proposals to change the program to achieve U.S. objectives.

I would hope that this hearing will fill in this information.

We will now proceed with the administration witnesses from the Commerce Department, USTR, and the Customs Service to testify on each of the tariff bills.

[Whereupon, the subcommittee proceeded with the hearing on miscellaneous bills.]

Mr. JONES [presiding]. If there are no further witnesses, we will excuse you and go into the operation of the generalized system of preferences. We were going to hear first the administration witnesses, but our colleague from the Senate, Senator Chafee, was here. Is he still here? Anybody from his staff?

Mr. CONABLE. It is my understanding, Mr. Chairman, that he had to make a vote and that he will be back very shortly.

I think we should try to accommodate him to the extent we can.

Mr. JONES. We have a vote too. We will recess briefly to make this vote. We will come back in 10 minutes.

[Brief recess.]

Mr. JONES. The hearing will come to order.

We are moving into the GSP and we were going to hear from administration witnesses first, but our colleague, Senator Chafee, is here and we are going to ask Senator Chafee to go ahead and give his testimony.

Welcome to the subcommittee, Senator.

STATEMENT OF HON. JOHN H. CHAFEE, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator CHAFEE. Thank you very much, Mr. Chairman. I appreciate a great deal your courtesy in allowing me to appear at this point. I will summarize my testimony and submit it in its entirety for the record.

First: I want to say that I think it is splendid that you and the other members of this subcommittee are undertaking this study of the GSP program. It is a matter that should be studied and deserves a good deal of attention.

Second: Let me say that it is my view that the GSP is a good idea and has been helpful, not only to those nations that are considered

developed, but also it has been helpful to the United States. I was surprised to find that more than a third of all U.S. exporting is to developed countries. We gain a great deal in sales to these nations, but I do have deep concerns about how the program is operating. I will briefly touch on five points.

First is the competitive need test, which is that 50 percent of the U.S. imports of a GSP designated product is permitted to enter the United States from any GSP nation.

It seems to me that this test does not take into effect the fact that total imports may greatly swell and so the GSP 50 percent also is with that, so it becomes a very significant part of the total imports into our country.

Second: I would like to mention the other limitation, which is the dollar limit that is keyed to the U.S. gross national product.

While the limit is keyed, as I say, to the growth of the U.S. gross national product, a particular industry affected by GSP imports may have had a sluggish year and no growth whatsoever. As an example, we need only look at the jewelry industry or the apparel industry or the eyeglass frame or the textile industry. The U.S. gross national product may have increased substantially, but these industries have stagnated or sometimes even decreased. To gear the imports on the dollar amounts to the gross national product doesn't seem to me the way to proceed.

I suggest that the cash limitation be keyed to the growth of individual industries, or if this proves too complex, to a group of products.

A "hold harmless" provision could be added to allow GSP nations to continue in their export activities.

Third: Mr. Chairman, I believe Congress should make an attempt to untangle the process which a producer is required to go through in order to have a product removed from the GSP list. Currently, an industry must prove, through petitions and hearings and very extensive documentation, that it has suffered substantial damage before the process can even start, and I think everybody who is familiar with the process will state that getting a product removed from the GSP list is very complicated.

I would hope that it could be made simpler.

Fourth: Mr. Chairman, greater attention must be given to the actions of our Government which permit the subdivision of product codes. In other words, if there is a dollar limitation on a code, and we allow it to be subdivided into, say, five new product codes, as occurs in the jewelry, obviously that permits a tremendous jump in the amount of duty-free imports that are permitted from one country under a single product code.

For example, instead of a country bringing in \$41 million worth of duty-free imports under a single product code, which is the present dollar limit, the single product code is subdivided five times, and then \$82 million worth of the same product or products are allowed to enter the United States.

Fifthly: Mr. Chairman, I think that careful attention has to be given to the list of countries on the GSP nations list. The appropriate selection of countries like Bermuda or Bahrain or Singapore or Hong Kong existing on the GSP list has always astonished me. While it can

be shown that the per capita income is quite low in Hong Kong, nonetheless, from every external appearance as well as rate of productivity in certain industries, it is a prosperous area. The per capita income might be very high for some groups of people within that nation compared to the population of other nations within the general area.

Mr. Chairman, I am pleased that the President's report on the GSP program addresses this notion of differential treatment for the most economically advanced developing nations and notes that the concept of graduation, that is, the phasing out of differential treatment for the more advanced developing nations is being considered. I think that is a very good idea, but should be taken farther than the report indicated.

In closing, Mr. Chairman, I would just say that the chairman of the Senate International Trade Subcommittee of the Finance Committee, namely, Senator Ribicoff of Connecticut, has asked that I undertake a study of this GSP program in conjunction with Senator Moynihan and to report amendments to it. We are, of course, intensely interested in what takes place here before the subcommittee and we expect to have hearings within our subcommittee in the near future. I do hope that we will have the opportunity to learn from you and we will certainly follow everything you are doing with the greatest of interest.

[The prepared statement follows:]

STATEMENT OF HON. JOHN CHAFFEE, A U.S. SENATOR FROM THE STATE OF RHODE ISLAND

I appear before you today to present testimony on the Generalized System of Preferences, or GSP as it is often called, and its effects upon domestic industry.

Let me begin by stating that the conception of the GSP program in the Trade Act of 1974 was an important and worthwhile endeavor. The record demonstrates that through this program of preferential treatment for certain imported products from developing nations, these countries have been able to expand their exports, strengthen their economies, and purchase more imports from the United States. In fact, more than one-third of all U.S. exports go to lesser developed countries.

For many developing nations, export earnings constitute the primary means for financing imports of food and other basic commodities required just to maintain the existing standard of living. The extension of tariff preferences for these countries provides a means for helping them lessen their dependence on foreign aid, and for diversifying their economies.

As a member of the Senate Subcommittee on International Trade, I believe that the United States should be proud of its GSP program, and stands in the good company of many other developed countries with analogous programs of preference.

Nonetheless, it has come to my attention that shortcomings may exist in the GSP program so that domestic industries are not adequately protected.

I am concerned that the "competitive need" test is not sufficient to detect accurately and quickly the damage to a U.S. industry as a result of increased imports. Also, the subdividing of product codes to create several additional product listings should be prohibited within the GSP program, unless absolute need can be shown. And further, I submit that both the list of GSP eligible products, and the list of GSP countries be more closely scrutinized. There are some more advanced nations currently on the list that may need to be removed.

I shall explain some of my concerns briefly, and suggest possible solutions that might be explored by this Subcommittee.

I. The "competitive need" test of 50 percent of total U.S. imports of a GSP designated product does not consider the effects of total imports on a U.S. industry.

For example, the President's report on the Generalized System of Preferences states that "GSP duty-free imports account for only a small share of total imports . . ." (page XI) Throughout the report, there are several statements which compare duty-free imports with total imports.

Such comparisons are misleading because they do not illustrate the growth of all imports and the effects of that growth on domestic industries.

To demonstrate the problem, I point to the jewelry industry, the single largest employer in my state of Rhode Island—accounting for one-fourth of all manufacturing jobs in the state.

From 1976 to 1978, American jewelry exports increased from \$112 million to \$165 million—an increase of 47 percent.

But during that same period, jewelry imports to the United States increased from \$280 million to \$678 million—an increase of 141 percent!

However, the President's report shows that the amount of duty-free jewelry imports as a percentage of total imports has declined or remained constant since 1966.

It's deceptive to say duty-free jewelry imports have not increased as a percentage of total imports, while ignoring the fact that total imports have increased so dramatically.

I urge this Subcommittee to strengthen the existing protections for U.S. firms under the GSP program by adding language that clearly states that domestic market conditions be considered when granting tariff preferences.

It should be known what share of the U.S. market is being consumed by imports, before a reasonable assessment is made about the effects that the 50 percent test of GSP imports will have on a U.S. industry.

II. The second concern I raise deals with the dollar limit keyed to the U.S. Gross National Product.

While the first threshold of \$25 million was set in 1974, the current cash quota is \$41.9 million.

The problem is that although the Gross National Product increases, an individual industry, like jewelry, or apparel manufacturing, might have a sluggish year, with no growth at all.

Regardless of a specific industry's economic growth or decline, all products on the GSP list are allowed to be imported in increasing amounts based on a national rate of growth.

The system uses macro-economic standards to make micro-economic determinations.

I suggest that an industry-by-industry, or sector-by-sector approach be used when computing the dollar limit on GSP imports. To allow the developing nations the opportunity to plan their export activities (and thus, their economic survival), a "hold-harmless" provision could be included. That is, if a U.S. company stagnates or declines during a given year, the dollar limit on GSP imports would remain constant from the previous year. Thus, only U.S. growth industries would increase their ceiling of GSP imports, while stagnant or declining industries would still guarantee the LDC's a dollar limit equal to the previous year's cash threshold.

III. Third, Congress must make changes to the tangled process required to move a product from the GSP list. Currently, an industry must prove through petition, hearings, and extensive documentation, that it has already suffered substantial damage before the process even begins, and then the bureaucratic maze often takes several months or longer to complete. In the meantime, import competition increases, and jobs are lost.

Again, I use the jewelry industry as an example.

The annual average monthly employment of jewelry workers in Rhode Island was 32,500 in 1978.

In 1979, jewelry employment dropped to 29,700.

In January 1980, this figure declined to 27,100.

In February 1980, it dropped again to 26,200.

And the decline continues.

In the past twelve months—since March 1979—5,300 jewelry manufacturing jobs have been lost in Rhode Island alone. This does not include retailers, display houses, or machinery or tool manufacturers, dependent upon the industry.

It will not go unnoticed, especially during these budget-cutting days, that in 1980, the U.S. government will provide over \$1.5 billion in Trade Adjustment Assistance to workers who are without jobs due to import competition, the largest amount in the history of the adjustment program. This, in itself, is not objectionable. It is, in fact, an important component to our freer trade policy.

But should we, at the same time, be ignoring blissfully the GSP program that might be costing thousands of Americans their jobs? I think not.

I recommend that we make greater efforts to forestall unemployment of domestic workers by providing a faster system to remove products from the GSP list.

IV. Fourth, attention must be given to recent actions on the part of our government to show a willingness to subdivide product codes in the list of eligible GSP goods.

In a recent case, a developing nation petitioned to have one product subdivided into five new product codes.

The result: Instead of \$41.9 million worth of duty-free imports entering the U.S. from one country under a single product code, now \$210 million worth of duty-free imports of the same product or products would be eligible to enter this country.

Does the original Trade Act legislation of 1974 provide for such subdivisions? Was it the intent of Congress to allow for the circumvention of the "competitive needs" limit test, or is the limit too weak? These are questions which deserve careful consideration in the coming weeks.

V. Finally, I believe that greater integration is needed between the GSP products list and the GSP developing nations list. Currently the lists are created independently of each other, without regard for the level of development of a given nation, or the variation among industries within a specific nation.

We must review the appropriateness of countries like Brunei, Bermuda, Bahrain, Singapore and Hong Kong on the GSP list.

Not only is there variation among nations, but within nations as well. Of the nations eligible for GSP preferences listed in the President's report, the per capita GNP ranges from \$10,000 to less than \$80 in 1978 dollars.

Some industries within these nations could be considered "more developed" or more efficient and productive than comparable industries in the U.S.

The President's report addressed this notion of differential treatment for the most economically advanced developing nations, and I applaud the President for making mention of it. The concept of "graduation"—that is the phasing out of differential treatment for the more advanced developing nations is a good start, but I believe that it needs considerable more review, and should be examined in conjunction with specific products.

It should be clear to all present that developed and developing countries have a common interest in maintaining an open international trading system based on agreed rules and constraints on national action, as the President's report states. The GSP preferences have great merit. But these preferences must not cost the loss of American jobs. This was made clear during the Trade Act hearings in 1974.

In closing, I am pleased to inform the Chairman and the Subcommittee that I have been selected by Senator Ribicoff, Chairman of the Senate International Trade Subcommittee of the Finance Committee, to study the GSP program and to report on the need for possible amendments. I expect the Senate Subcommittee to schedule hearings on this topic in the near future.

I hope that our Committees will work together on this issue and I invite the witnesses here today to share their thoughts with me also.

ATTACHMENTS

CAN JEWELRY BE THE VICTIM OF TRADE REALITIES?

[By Clyde H. Harrington, Journal-Bulletin Business Writer]

WASHINGTON—Perhaps due in part to the rise of protectionist sentiment, the textile industry, a diminishing group in Rhode Island though still a sizable influence across the country, apparently will benefit considerably from the recently concluded Tokyo Round trade agreement.

This is the conclusion to be drawn from a "Special Briefing on International Trade," held here Thursday at the U.S. State Department in Washington, D.C. It was the Carter administration's bid to enlist support of the news media and industry for the agreement.

On the other hand, it would seem that Rhode Island's all-important jewelry-silverware industry has been virtually ignored in the several years of talks which culminated in the agreement signed in Geneva in April.

It would appear that this is because jewelry-silverware employs only around 75,000 or 80,000 Americans on a nationwide basis. These people are concentrated in two major groups: in Rhode Island and southeastern Massachusetts, where the employment tops 35,000, and in the Metropolitan New York area.

The textile and apparel industry, on the other hand, employs an estimated 2.5 million men and women nationwide, even though only 13,000 of them are in Rhode Island.

Understandably, U.S. negotiators took into consideration the size of the various industries or groups seeking improvements in international trading. But, as has been said, it still hurts if it is your ox that is being gored.

And in international wheeling and dealing, it always is a matter of take—and give.

These, then, were some of the realities talked about at the special briefing on the Multilateral Trade Negotiations (MTN) of the General Agreement on Tariffs and Trade—the so-called Tokyo Round.

For example, Alan W. Wolff, deputy representative for trade negotiations with Ambassador Robert Strauss, admitted that U.S. negotiations in the Tokyo Round "gave up" areas they felt were "not that sensitive."

He said that "we can't let imports cause massive disruptions" in the textile industry. "I think we have dealt very fairly with textile mills and with textile workers."

However, Wolff told a questioner that while he knew the jewelry industry was represented, "I'm sorry I don't know specifically about the jewelry industry."

George R. Frankovich, vice president/executive director of the Providence-based Manufacturing Jewelers & Silversmiths of America Inc., and, himself, chairman of one of the MTN advisory groups, has charged that the jewelry industry was sacrificed at Geneva in favor of textiles, airplane manufacturers and other interests.

Wolff stated, at one point, that the U.S. team had conducted negotiations for the country as a whole and, on that basis, "I think we came out damned well."

Frankovich said Friday that the "we" in Wolff's statement "certainly cannot include the jewelry industry."

"Ambassador Wolff's emphasis that textiles and apparel employ 2.5 million people and therefore was given special consideration, is typical of the general results of the negotiations," Frankovich said. "Smaller, labor intensive, import sensitive industries such as jewelry came out poorly when compared with textiles, aircraft, specialty steels and agriculture."

Frankovich said that while the administration has announced that the average U.S. tariff cuts made at Geneva were 32 percent, cuts on jewelry tariffs averaged nearly 50 percent with an even higher average for costume jewelry, which is the major portion of the jewelry manufacturing industry in this area.

Addressing the more than 500 selected representatives of business, industry and the press, Deputy Secretary of State Warren Christopher declared that the negotiations, spanning several years, will succeed "only if the Congress and people like you are prepared to support it."

But if the agreements are rejected, Christopher said, "protectionism, trade wars and harm to our overall foreign policy" can result.

R.I. JEWELRY DROPOUT HIKES THE JOBLESS RATE

PROVIDENCE.—The jewelry slump, caused largely by the price of gold and silver, is a big factor in job losses that pushed Rhode Island's unemployment estimate to 8.1 percent in February, the highest level in two years.

State figures released Friday showed unemployment increased by 2,500 jobs from January, a month in which 35,000 people—an estimated 7.6 percent of the work force—were jobless. The national rate for February was 6.8 percent.

"If it were not for such severe cutbacks in the jewelry manufacturing industry, we would not be seeing the figures we see today," said Employment Security Director Mary C. Hackett.

Jewelry lost 900 jobs since January and 3,400 over the last 12 months. The other manufacturing segments added a total of 1,400 workers over the year, leaving a net loss of 2,000 in the category.

"Uncertain prices and the inability to buy gold and silver, and then to price their goods for later delivery are a big problem for the jewelry industry. There has been no fad, no gimmick that has caught on in the last year or so.

Mr. JONES. Thank you very much, Senator Chafee, for some very constructive comments.

I would be particularly interested in any additional comments now or in the future as to suggestions on dealing with the more advanced countries that are on the GSP list now, so if you had anything additional in the way of specific recommendations, I would like to hear them now.

Otherwise we will look forward to working with you. Do any of my colleagues have any questions?

Mr. CONABLE. None, except to welcome Senator Chafee and express appreciation for the fact that you are studying this carefully on your side. I think it is something that needs our continuing attention. The developing world is not a homogenous place, and differentials may be entirely appropriate within the developing world if we are to encourage an appropriate pattern of trade.

We have some impression that the more advanced nations of the developing world are walking off with the lion's share of GSP, the purpose of which was to encourage development, and it is not really serving that function to the extent Congress intended. Certainly it is an appropriate time to study the impact not only on our own trade, but on world trade of GSP as it is presently phrased in our law.

I think it is fine that the Senate is studying this also. I think we can work together and make a constructive evolution of the law as we see it.

Mr. JONES. Mr. Frenzel?

Mr. FRENZEL. Mr. Chairman, I too want to welcome our colleague from Rhode Island and thank him for his testimony and for the work that he and Senator Moynihan are doing in this area. We are going to rely very heavily on their recommendations in what we do over here.

I also want to thank him for his good work in other areas of trade advancement, particularly the area of section 911 where he was an early observer of the inhibitions placed on export expansion by that particular section of the code.

Thank you very much.

Mr. JONES. Mr. Moore?

Thank you very much, Senator, for your testimony.

Senator CHAFEE. Thank you, Mr. Chairman and members, and I want to take this opportunity to say how grateful I am for all the attention that each of you has given to these trade matters and to increased productivity and the matters that I have heard you speak on many times very, very effectively and of such import to our Nation.

I would like to make mention, before I leave, of the presence here today of representatives from the Manufacturing Jewelers and Silversmiths of America, a national organization based in Providence, R.I. and which represents some 2,000 firms and 30,000 workers.

Mr. Mat Runci of the jewelers' group is scheduled to present testimony before you this morning. I support his statement and hope that members of the subcommittee will consider his statements carefully.

Mr. JONES. Thank you very much. Your entire testimony will be included as part of the record also.

Our next witnesses are from the administration. Doral Cooper, Deputy Assistant U.S. Trade Representative, and from Treasury, David Ramsay, Operations Officer, Duty Assessment Division, Customs Service.

STATEMENT OF DORAL COOPER, DEPUTY ASSISTANT U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE; ACCOMPANIED BY STEPHEN L. LANDE, ASSISTANT U.S. TRADE REPRESENTATIVE FOR BILATERAL AFFAIRS; MICHAEL HATHAWAY, ASSISTANT GENERAL COUNSEL; MELISSA COYLE, ASSISTANT DIRECTOR, GENERALIZED SYSTEM OF PREFERENCES; DAVID RAMSAY, SENIOR OPERATIONS OFFICER, DUTY ASSESSMENT DIVISION, U.S. CUSTOMS SERVICE, DEPARTMENT OF THE TREASURY; AND SANDRA O'LEARY, INTERNATIONAL ECONOMIST, DEPARTMENT OF THE TREASURY

Mr. LANDE. I am Stephen Lande, the Assistant Special Representative of Bilateral Affairs. Accompanying me today are Doral Cooper, who is the Executive Director of the GSP program, who will be giving the testimony; Sandra O'Leary, who coauthored the report that will be the subject of discussion; Mike Hathaway of our Assistant Legal Counsel in the Office of the USTR; and Melissa Coyle, Assistant Director of the GSP.

We also have Dave Ramsay of the Department of Treasury Customs Bureau with us.

We would like to thank you very much for having these hearings. Sometimes we feel, working on GSP, that it is a program that doesn't get the attention perhaps that it deserves or wants. It is a very difficult program I think to administer, perhaps one of the most difficult aspects of the Trade Act because, unlike other parts of the trade program where you can see immediate benefits to U.S. exports or where you can engage in trading concessions, GSP is basically a program that is run on a nonreciprocal basis.

Without further ado, let me introduce Doral Cooper who will give the administration's testimony on this matter.

Mr. JONES. Thank you very much.

Mrs. COOPER. Mr. Chairman and members of the subcommittee, on behalf of the Office of the U.S. Trade Representative, I appreciate the opportunity to appear before you today to discuss the findings and recommendations contained in the President's report to the Congress on the first 5 years' operation of the U.S. generalized system of preferences.

The GSP, which was implemented in January 1976, was authorized through title V of the Trade Act of 1974. It is authorized to extend to January 3, 1985. The program grants duty-free access to about 140 developing countries and territories in Europe, Latin America, Africa, Asia, and the Pacific on 2,800 products, up to certain limits. Under these competitive need limitations, a developing country loses its eligibility for GSP treatment on an item of its shipments of the product in the previous calendar year exceeded either 50 percent of total U.S. imports of that item or exceeded a certain dollar amount, which in 1979 was \$41.9 million.

The President's report reviews the major provisions and regulations governing the U.S. GSP and compares the U.S. program with those of other developed countries. It examines the impact the program has

had on the economies of developing countries and on the U.S. economy. The report also discusses the operation of the competitive need limitations and considers measures to increase graduation by country and by product in order to provide a greater distribution of duty-free benefits to the less advanced developing countries.

Generalized tariff preferences are offered by 19 member countries of the Organization for Economic Cooperation and Development. These programs are designed to help developing countries increase their exports, diversify their economies, and lessen their dependence on foreign aid.

Although the various GSP programs are generally similar in terms of the number of developing countries eligible to receive benefits, the product coverage of the U.S. scheme as a share of dutiable LDC trade is smaller than that of both the EC and Japan, as well as of most other schemes. On the other hand, the EC and Japanese programs have ceiling limitations which create some uncertainty regarding the tariff treatment that will apply to certain GSP products.

All programs have safeguard measures to protect sensitive domestic industries and to insure that less competitive developing countries receive benefits. Despite some differences among the programs, it is generally agreed that the major developed countries offering GSP currently are meeting their international burden sharing responsibilities in an equitable manner. However, it often is pointed out that all other programs were implemented 4 to 5 years earlier than that of the United States and although the systems may now be in rough balance, the other programs were in operation several years before the U.S. program.

The U.S. GSP has not been in effect long enough to measure its full impact on the economies of developing countries. Analysis included in the President's report, however, indicates that GSP has increased opportunities for developing countries to diversify and expand their exports.

In 1979, \$6.3 billion in imports from beneficiary developing countries entered the U.S. duty-free under the GSP. In testimony and statements submitted in conjunction with preparation of the report, developing country officials acknowledged GSP's contribution to their country's economic development. To improve the U.S. program, they urged an expansion in the number of products covered by the program and a liberalization of the competitive need limitations. They also expressed concern regarding any attempt to remove either countries or product sectors from GSP eligibility.

In analyzing GSP trade for a 3-year period, we are able to determine, at least preliminarily, that in addition to trade being created, trade in GSP eligible products has in some cases shifted away from traditional developed country suppliers to GSP beneficiaries. The program thus has been of substantive importance to developing countries, but important too is the principle surrounding the GSP program which recognizes that developed countries need to help promote development in LDC's and that in many cases LDC's currently cannot compete in international markets with products from industrial nations. Temporary tariff preferences may indeed help to integrate LDC economies in the world trading system.

GSP needs to be viewed in the context of our overall trade relations with developing countries. It should be emphasized that developing country economies provide very important markets for U.S. goods. Developing countries use the foreign exchange earned from exports, including GSP exports, to purchase U.S. goods, thereby providing employment for U.S. workers and business for U.S. firms. Developing countries currently provide the fastest growing markets for U.S. exports.

Between 1970 and 1979 our exports to non-OPEC developing countries increased by an average annual rate of almost 18 percent, compared to an increase of about 15.5 percent for exports to developed countries. In 1979 almost 35 percent of total U.S. exports were shipped to developing countries. In 1978, the United States exported \$35.2 billion in manufactured goods to developing countries while importing just \$22.5 billion from them. U.S. manufactured exports to developing countries increased by 3.5 times between 1972 and 1978. In comparison, manufactured exports to the developed countries rose 2.5 times. In summary, GSP is an important part of a mutually beneficial trade relationship between the United States and the developing countries.

The U.S. scheme was designed to insure that GSP duty-free imports do not cause harm to U.S. producers or workers. In the aggregate, the GSP has not had a significant impact on the U.S. economy in terms of either production or employment. Indeed, GSP duty-free imports are less than 4 percent of total U.S. nonpetroleum imports. In addition, the tariffs on most GSP eligible products are relatively low because sensitive products are not eligible for GSP duty-free treatment. The average tariff level on GSP products is currently about 9 percent. This level will be reduced by one-half to 4.5 percent over the period from 1980 to 1987 as a result of tariff reductions agreed to in the Tokyo round of multilateral trade negotiations.

GSP duty-free imports account for only a small share of total imports in most agricultural and industrial sectors. While the program has not had a clear impact on the U.S. economy in the aggregate, the report recognizes that it is possible that GSP has had an impact in certain product sectors within the U.S. economy. In order to assess whether and to what extent GSP imports have affected certain sectors, we examined increases in U.S. imports of GSP products by sector. In carrying out this analysis, U.S. agricultural and industrial imports were divided into sectors roughly comparable to those used during the MTN.

GSP duty-free agricultural imports account for about one-tenth of total GSP duty-free imports and since 1976, GSP duty-free imports of agricultural items only increased by about \$100 million. However, during that time the share of GSP duty-free imports in total U.S. agricultural imports declined from about 4 percent in 1976 to 3.5 percent in 1978. If only the dutiable portion of agricultural imports is considered, the share of GSP duty-free imports declined from about 9 percent to 7 percent.

During the public hearings held by the GSP Subcommittee of the Trade Policy Staff Committee on the overall operation of the GSP, several representatives of U.S. agricultural producers testified on the

GSP's impact on U.S. agriculture. They cited no examples of specific adverse impact on U.S. agriculture as a result of GSP duty-free imports.

On the industrial side, manufactured products make up 90 percent of the products covered by the U.S. GSP. Overall, GSP duty-free industrial imports increased from \$2.6 billion in 1976 to \$4.6 billion in 1978. During this period the share of GSP duty-free imports in total nonpetroleum industrial imports increased from about 3 percent to 4 percent.

Domestic manufacturers, manufacturing associations, and labor unions have played an active role in filing petitions and presenting testimony on the GSP, both on specific products during annual product reviews and on the overall operation of the GSP. They have provided the U.S. International Trade Commission and the GSP Subcommittee with relevant testimony regarding the impact of GSP duty-free imports on U.S. industry. U.S. labor unions in particular have played a major role in providing information on the effect of the GSP on U.S. workers in import-competing industries.

We believe that the GSP annual review has been effective in responding to those cases where import sensitivity in the context of the GSP has arisen. The procedures for conducting the reviews are open and allow all interested parties to make their views known. The U.S. GSP is the only program that provides for an open review process. Five product reviews have been held since the GSP program was implemented. Through March 1979, 82 products, valued at \$217 million, were added to the GSP eligible list and 19 products, valued at \$409 million have been removed. In April of this year an additional \$585 million in developing country imports were added to the GSP, but nearly two-thirds of this will be ineligible for duty-free treatment because of competitive need limits applied against coconut oil imports from the Philippines.

In response to recommendations made by domestic agricultural, industrial, and labor union interests and by foreign parties, the administration is planning to introduce two changes to the annual product review beginning in 1981.

First: An information center will be set up sometime later this year to assist both domestic and foreign parties in obtaining data and other information necessary to prepare briefs and submissions for GSP product reviews.

Second: The schedule for product reviews will be changed to allow interested parties additional time to prepare support and rebuttal briefs on products for interagency consideration.

In assessing the operation of the competitive need limitations of the GSP, the report concludes that the competitive need mechanism is operating as intended by title V to exclude more competitive beneficiaries from GSP duty-free treatment in particular products.

In 1978, one-third of all GSP eligible imports did not receive duty-free treatment due to the competitive need limitations.

Nonetheless, the distribution of GSP duty-free benefits among beneficiary developing countries has been uneven. Approximately 70 percent of total GSP benefits accrue to the program's top five major beneficiary countries. This uneven distribution results from the differ-

ent infrastructures and productive capacities existing in various developing countries. Not surprisingly, the distribution does not vary significantly from the five countries' share of overall U.S. industrial imports.

It also should be pointed out that these five beneficiaries likewise account for 70 percent of overall competitive need exclusions and over 80 percent of competitive need exclusions against industrial items.

Background analysis carried out for the report indicates that less advanced beneficiary countries were not able to increase their overall share of GSP benefits when one of the five major beneficiaries was graduated from GSP treatment as a result of the competitive need provisions. In most product areas many beneficiaries do not yet have the capacity to produce the manufactures and semimanufacturers which predominates in the U.S. GSP program. In the case of the least developed, it is not clear that this capacity will be developed even over a long period of time. Furthermore, the exclusion from the U.S. program of many agricultural items and labor-intensive goods in sectors such as textiles and apparel, footwear, and leather products has hindered the poorest developing countries from realizing major benefits.

While the competitive need limits have graduated major beneficiaries from receiving duty-free treatment for a large share of their eligible trade, these limits to date have not resulted in a significantly wider distribution of GSP benefits among developing countries. Therefore, the President's authority to withdraw, suspend, or limit duty-free treatment will be used to limit benefits for the more developed beneficiaries in products where they have demonstrated competitiveness and to provide increased opportunities for less developed, less competitive countries.

This should help insure that the more advanced beneficiaries use of the program does not damage the trading interests of the less developed. In applying this authority, the President will take into account the development level of beneficiaries, the competitive position of the country with respect to the particular product, and the overall economic interests of the United States. The authority will be exercised in the context of product reviews both in adding and removing products with respect to individual countries. It also will be applied in decisions to redesignate countries for GSP duty-free treatment in items which were previously excluded by the competitive need limitations.

Finally, in recognition of the limited capacities of the less advanced developing countries to take advantage of the U.S. GSP, a special effort will be made to include on the GSP list items of particular export interest to lesser developed developing countries, including handicraft articles.

It is anticipated that these modifications will be applied in such a way that the overall level of GSP duty-free benefits granted by the United States will not be reduced in view of the international obligations of the United States, consultations on this proposed action are scheduled next week with developed countries in the OECD and at the end of this month with developing country beneficiaries.

We hope that the changes which will be introduced into the GSP during the next 12 months will enable the program to better meet the needs of beneficiary developing countries over the next 5 years and to better respond to the concerns of U.S. domestic interests.

Mrs. COOPER. No, we are not.

We would be pleased to answer your questions.

Mr. JONES. Thank you very much, Mrs. Cooper, for your fine testimony.

Mr. Conable?

Mr. CONABLE. Thank you.

Mrs. Cooper, do you feel that the basic law setting out requirements of GSP is adequate guidance at this point for the flexible handling of the program? Do you feel that additional legislative guidance is needed at this point?

I notice certain satisfaction in your description of the program and the flexibility which has permitted the addition of certain products and a subtraction of import-sensitive products as well.

Are you generally satisfied that the mandate you have is appropriate to accomplish the purposes of the program?

Mrs. COOPER. The conclusion of the report, which involved about 8 or 9 months of analysis by the Interagency Committee, indeed point to a recommendation that the requirements of title V are effective in administering the GSP program.

We think there is a good balance between the concerns and interests of U.S. domestic parties and those of the international community in our regulation of the GSP program currently.

Obviously we are extremely interested in the concerns of the subcommittee on the administration of the program and we are anxious to hear those today.

Thank you.

Mr. CONABLE. But you are not seeking any change in the law?

Mrs. COOPER. No, we are not.

Mr. CONABLE. What are the five countries you refer to?

Mrs. COOPER. The five countries are Taiwan, Hong Kong, Korea, Mexico, and Brazil.

Mr. CONABLE. And they still all qualify as developing countries on a per capita basis?

Mrs. COOPER. Yes, they do. As a matter of fact, the GNP per capita level for some of them is considerably lower than it is for many developing countries.

Mr. CONABLE. They have all been extensively used by American industry through technology licensing arrangements and the establishment of subsidiaries to produce goods, have they not? In other words, there has been substantial American involvement in each of those countries?

Mrs. COOPER. It depends, I think, sir, on the country we are talking about. These five countries do provide the fastest growing markets for U.S. exports, but as far as the activity of multinational corporations are concerned, it does vary quite tremendously among those five and among other developing countries which benefit from the program.

Mr. CONABLE. Those countries use GSP to the limit, don't they, in each case?

Mrs. COOPER. No, actually not. Their GSP exports in many cases are not a major share of their exports to the United States. In the case of Mexico and Brazil, it is a very small share. Many of their exports come in duty-free on an MFN basis because they largely center around agricultural shipments.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. JONES. Mr. Frenzel?

Mr. FRENZEL. Thank you, Mr. Chairman.

Thank you, Mrs. Cooper. What would happen if the Congress were to repeal the GSP provision?

Mrs. COOPER. If Congress were to repeal the program?

Mr. FRENZEL. Yes.

Mr. LANDE. I think it would first reduce a burden to both your committee and to our agency in administering the program, but I think also it would have a significant effect on our relations with developing countries as well as on our relations with developed countries.

The basis of the GSP program which, as you know, was originally advocated by the Johnson administration, was that instead of special preferential arrangements between certain developed and certain developing countries which had the effect of indirectly discriminating, or directly discriminating against U.S. exports, it would be much better to have a generalized program.

The U.S. Government insisted at that time, I believe relatively successfully, that any such program, however, should reflect equivalent burden sharing among the developed countries and I think, given the history that has followed since these original decisions were made, that if the United States did suddenly repeal the GSP program, it would no longer have the burden sharing that we had discussed and could also lead to an extension of these preferential arrangements.

Mr. FRENZEL. Are you satisfied that the burden sharing has been somewhere near proportional to the economies involved?

Mrs. COOPER. Yes. Internationally the programs are regarded as relatively equal. Generally the same countries are included on the schemes and, as I said in my statement, although the product coverage of the U.S. scheme is somewhat more limited than that of the European community and Japan, we have a flexible system which affords, I think, a more open response system for developing countries.

Mr. FRENZEL. You may recall that last year we had a little problem about importation of railroad cars from Mexico. Apparently those that entered under GSP later exceeded the limit, making up a percentage of U.S. imports above which entries no longer could be subject to GSP, and thus subject to a high rate of duty.

Many people thought, though apparently not a majority of this subcommittee, that it would be a good thing if that duty could be reduced.

You are not suggesting anything that would enable the executive to be able to move in situations like that, are you? Any reason why you wouldn't?

Mr. LANDE. First, specifically on railroad cars, since Mexico shipped below the competitive need limitation in 1979, the item has been redesignated for GSP this year, so this year Mexican railroad cars will be entering duty free.

Mr. FRENZEL. Sure, but they are going to be on this kind of cycle because, as soon as they ship anything, they are going to crack the 50-percent barrier. Then the next year they will go under the competitive need. Then they will go another year. That is not a very good way to have a decent relationship between our countries.

Mr. LANDE. Given the fact that the average duty of a product on GSP currently is about 9 percent, but after the MTN will be implemented that average will be down to about 4.5 percent, I do not believe that there are many products where there will be the so-called seesaw effect, that either the 4- or 8-percent duty will be that significant.

The question that you raise, nevertheless, is a good one and we have been studying that particular point. I think if you add in more flexibility to the competitive need limitation and if you allow it to increase in certain situations, you will find yourself opening up a Pandora's box of problems which may more than outweigh the few cases that might occur where there is a so-called switching effect or where the duty is such a significant factor that it does affect trade.

There are other vehicles available for dealing with problems such as that. One of the areas was gold jewelry, which was discussed earlier but at least in that case where the main problem in gold jewelry was not caused by an increase in volume of sales—in fact, it was either about the same or decreased—but was caused by a sudden increase in the gold price, there was sufficient flexibility in our particular law that we were able to deal with it.

Again on the railroad cars, without belaboring the point, there was always the possibility that if you couldn't resolve the problem through GSP, you could do so through congressional legislation which, as pointed out in this particular case, was not deemed appropriate, so I myself would be against changing the basis of the program to deal with the one problem that you have raised, Mr. Frenzel.

Mr. FRENZEL. I don't disagree with you and I would be, I think, the last person around here to take any GSP bill to the floor. One of our prominent members here is wont to say that if anybody had known what GSP was in 1974, it certainly would never have survived in the Trade Act.

So I think we have to be a little careful in attempting modifications. On the other hand, the modifications that have been suggested and have been effected have been all at our initiative, and it seems to me that you owe us a little more counsel and a little more good thinking on how we might change this plan, when times are right, to make it work better.

We had to sneak in Venezuela and Indonesia in the implementation bill and that was a necessary change, but it didn't come about because you were interested. I guess, Mr. Chairman, what I am saying is, I would like to see a little more aggressive statement.

Mr. JONES. Thank you.

Mr. Frenzel, in a followup to your last statement, in the MTN implementing legislation, we amended the OPEC exclusion from GSP to permit members concluding bilateral product and specific agreements with the United States during the MTN to become eligible for GSP—Venezuela, Ecuador, and Indonesia did so before that authority expired on January 3.

I understand that the administration is prepared to negotiate a bilateral trade agreement with Nigeria for possible submission to Congress for legislation to permit the granting of GSP to Nigeria.

The legislative history on the OPEC amendment expresses the Committee on Ways and Means great concern about the highly unfavorable U.S. trade balance with certain OPEC countries and belief that such countries which use most of their foreign exchange earnings from oil sales to the United States to purchase goods from countries other than the United States should not be rewarded with GSP benefits.

We had Nigeria particularly in mind in this regard, with whom we had a \$7.5 billion trade deficit last year.

We also expected the President to take into account whether the United States maintains a favorable trade balance with the OPEC country before granting GSP. Can you explain then the administration's willingness to negotiate an agreement with Nigeria with implementing legislation to provide GSP in mind?

Mr. LANDE. We have told the Nigerians that on its own merits we believe that a bilateral product specific agreement can hold advantages for both countries.

We also have told the Nigerian Government that we could give no commitment one way or the other as to whether or not the successful conclusion of a bilateral product agreement, after our authority had expired to provide GSP to such countries, OPEC members, would result in an administration initiative or congressional approval of granting Nigeria GSP.

We also pointed out to them the exact language in your report that you have cited. We have, however, on the other hand, been approached by certain other interests who have pointed out the importance of having both a bilateral agreement with Nigeria and of Nigeria having GSP. We are taking into account, obviously, their view, but as far as we are concerned, the ball is in Nigeria's court.

Their opposition is, if you feel a bilateral agreement is worth it on its own merit, let's negotiate that, and then, of course, based on the situation existing at that time and in close consultation with this committee and the Senate Finance Committee, we can then decide whether GSP is appropriate or not.

No commitment has been made by the administration to Nigeria that a bilateral agreement will result in a GSP designation.

Mr. JONES. Let me refer to the report about the President's authority to withdraw, suspend, or limit duty-free treatment, and how that will be used to limit benefits for more developed beneficiaries in products where they have demonstrated competitiveness and to provide increased opportunities for less developed, less competitive countries. His authority likewise will be exercised when products are added to the GSP eligible list.

Would you please describe what specific changes you plan to make in fulfilling the particular recommendation? For example, do you intend to apply GSP treatment on a particular product only with respect to certain beneficiary developing countries rather than to all beneficiaries as you do now, except for those which exceed the statutory competitive need limits? If so, what criteria will you use in determining which

developing countries should or should not receive GSP on a particular product?

Also, will this involve any determination that imports from certain sources are import sensitive under GSP and therefore to be excluded while other sources are not?

Mrs. COOPER. Mr. Chairman, the President's authority to withdraw, suspend, or limit GSP duty-free treatment will be used in three areas: first, in adding new products to the GSP list; second, in removing items already on the GSP from the program; and, third, in redesignating eligible beneficiaries for GSP treatment in products where they have gone over the competitive need in one year and then in a subsequent year have gone under competitive need.

In deciding on a case by case basis which countries may be affected by this authority, the President intends to take into account three criteria.

The first will be the general development level of the country of origin, looking at such factors as per capita GNP, share of manufactured exports in total exports, and other factors.

Second will be that country's competitiveness in the particular product in question. Developing countries generally are not competitive across the whole spectrum of product sectors and we will have to consider this on a case by case basis, depending on the GSP item under consideration.

The third factor the President will take into account in his discretionary authority will be the overall economic interest of the United States. We believe that this graduation proposal meets the concerns expressed by the subcommittee in the legislative history of the 1979 Trade Act and also most definitely takes into account the concerns expressed to us by U.S. industry and labor during the hearings that preceded the drafting of this report.

Mr. JONES. Mr. Conable?

Mr. CONABLE. We all are obviously affected by our own experiences and, as I understand your new policy, if it were to apply to a problem in my district, it would work something like this: My district, for instance, produces a lot of eyeglass frames. That has been a sensitive area in my district, but not sensitive enough to get anything done about it as far as GSP is concerned. There you have American technology and American companies in many cases producing eyeglass frames in Mexico, Hong Kong, Singapore, and so forth, a product that has been competitive and has intruded in our market to the extent of perhaps 50 percent in some cases.

Now, as I understand your new policy, it will be possible for them to come in and ask that, let's say, Mexico or some other relatively advanced nondeveloped country be taken off the list with respect to eyeglass frames because they are using their full quota under GSP. Is that correct? I am not asking for a commitment on this. I am asking only to understand the new procedure.

Mrs. COOPER. Yes. Hypothetically, it would be correct if there was a particular developing country which was extraordinarily competitive in an item and the other developing countries were not, we would not remove the item from the GSP. Rather, we would just remove the designation of that one country for that one item.

Mr. CONABLE. And that is the major effect of the differential that you are proposing, and it would have to be promptly moved on by any industry that sought this type of relief, is that so, by July 15?

Mr. LANDE. We have received petitions in the past which have requested that particular countries be taken off GSP for a particular product, especially if it was not possible to take the whole product off GSP for all countries, and it certainly would be a possibility.

We would look at this particular graduation criterion with two aspects in mind:

First, if the import sensitivity could be demonstrated to come from a particular country, it would be possible, as in your example, to remove Hong Kong from the GSP list, and another aspect that we will be looking at which will also perhaps give it more of a graduation tinge is the fact that if it could be demonstrated or if it just would occur that by removing Hong Kong, some of the lesser developed countries would have an opportunity to move into that particular product field, then we would have also considered, or perhaps in concert consider, removing Hong Kong, so it is both a version of import sensitivity and a version which hopefully will move us down the line of graduation.

The one point that we emphasized in the report was that at least our own studies have shown that even in cases where the most advanced developed countries have been eliminated from GSP by competitive need, there has been little movement among the lesser developed countries to move into that area, and I think that might reflect the fact that there are mainly supply constraints in those countries and that the tariffs are not the engine of trade, as we might have hoped they would have been.

Again, the simple answer to your question is basically yes.

Mr. JONES. Let me thank the witnesses. We have a number of other questions we want to ask, but the witness list today is rather long and I understand we have to be out of the room before too long this afternoon. So we will submit for the record a number of questions and we would appreciate your written responses to these.

[The questions and answers follow:]

STR ANSWERS TO QUESTIONS

Question. This Subcommittee received a number of suggestions during its hearings on the MTN from the private sector for changes in GSP to improve "graduation" of the more advanced developing countries, for example to make the competitive need limits on GSP trade under current law more restrictive.

What types of analyses did the Administration make of these various suggestions and why did you reject them? Was the decision based at least in part on a desire to avoid having to seek legislation and to make only changes possible under current law?

To what extent did you analyze limitations under GSP schemes of other countries for possible adoption in our own?

Answer. In preparing the President's Report to Congress on the first five years' operation of the U.S. GSP, the Administration considered both the "graduation" built into the program through the competitive need mechanism and additional measures that might be used to distribute GSP duty-free benefits across a greater number of beneficiary developing countries. With respect to the operation of the competitive need limitations, the Administration found that the countries which receive the major portion of GSP duty-free benefits also account for the greatest portion of competitive need exclusions. In 1978, the five major beneficiaries under the U.S. program accounted for 68 percent of all GSP benefits and 69 percent of all exclusions due to competitive need. If only GSP-eligible industrial products

are considered, these five beneficiaries in 1978 received 72 percent of GSP duty-free benefits and 81 percent of all competitive need exclusions.

While the most competitive beneficiaries are generally the countries affected by competitive need, their exclusion has not resulted in increased market shares for countries at lower levels of development. Only countries with the infrastructure and productive capacity to produce the manufacturers and semi-manufactures predominant in the U.S. scheme can be expected to benefit from the program in large part. Exclusion of labor-intensive products such as textiles, footwear, and leather goods from the U.S. program dictates that less advanced countries will not be major beneficiaries of the U.S. GSP. More restricted competitive need limitations affecting the most advanced countries would reduce the scope of the U.S. program without redistributing benefits to a wider group of developing countries.

In analyzing additional measures which could effect increased distribution of GSP benefits, consideration also was given to a country-specific graduation option. Under such an alternative, "graduates" would be designated using some set of objective economic criteria, such as per capita gross national product in conjunction with a country's percentage of manufactures in exports. The criterion would operate in a neutral manner and would be a measure which each beneficiary could also calculate in order to anticipate its designation as a graduated developing country.

Once named a "graduate," a country would be phased out of eligibility for GSP duty-free benefits. This approach was rejected, however, due to the difficulty in arriving at a fair, objective graduation criterion since those countries at a more advanced level of development—measured by per capita GNP, for instance—often are not the major beneficiaries of the GSP program. It also was rejected due to the international burden-sharing responsibilities of the United States. Removal of the more competitive developing countries from the U.S. program would reduce drastically the level of benefits provided by the U.S. GSP, which could cause other GSP donor countries to question the relative increase in their share of the "burden" of offering GSP schemes to the developing countries. In view of the current product coverage of the U.S. GSP and the relative production capabilities of the middle- and lower-income developing countries, it would be unlikely that less advanced countries could greatly expand their GSP duty-free benefits to compensate for the loss of the most advanced developing countries.

An attempt was made to compare the U.S. program to those GSP schemes of the other major donor countries. Many of the other programs have a broader product coverage than the U.S. GSP and include items such as textiles and leather products but impose a system of quotas and maximum limits which can be adjusted given the sensitivity of the product and competitiveness of the developing country in question. Adoption of this system of safeguards to the U.S. system was not considered appropriate because sensitive products are already excluded from the U.S. GSP. In addition, such quotas and maximum limits would introduce elements of arbitrariness and uncertainty in the U.S. program.

Beneficiaries have praised the U.S. system in the past for its adoption of a clear cut safeguard procedure based on publicly available and objective U.S. import statistics. The Administration also considered the relatively greater complexity of administering such a system of quotas and limits in rejecting this approach.

Question. GSP is granted on an individual product basis. The five major GSP beneficiaries—Taiwan, Korea, Hong Kong, Mexico, and Brazil, as well as other LDCs—clearly have certain highly developed and competitive industries. To what extent did you analyze and consider an approach whereby GSP would no longer be granted to an industrial sector with demonstrated ability to compete?

Answer. The principal difficulty in using a sectoral approach to determine the competitiveness of beneficiary developing countries is in defining with precision what comprises a "sector." As defined by ISAC category, sectors include products involving very different levels of technology and processing. But to define sectors more narrowly approaches a product-by-product analysis.

Assuming that a suitable definition of "sector" could be determined, each developing country demonstrates considerable variation in its relative degree of competitiveness within particular sectors. It is possible that a given developing country may not be competitive across a particular sector, although it may be quite efficient in producing a product within that sector. Under the sectoral approach, such a country would not be graduated in that sector because it would not be demonstrating competitiveness in the sector as a whole. The use of a prod-

uct-by-product approach allows the Administration to remove products from GSP eligibility where developing countries' levels of competitiveness in an individual product have adversely affected domestic producers of like or directly competitive articles.

From the domestic standpoint, a product by product approach to determine import sensitivity is superior, since it is less unwieldy than a sector approach. The close examination of products on a case-by-case basis permits the Administration to identify and focus on individual products in order to safeguard most effectively the U.S. industry producing like or directly competitive articles. The utilization of a sector-based analysis for such determinations would not allow the Administration to perform this task effectively.

Question. The report points out that mid-level and low-income GSP beneficiaries in greatest need receive just 9 percent of GSP benefits and that share will not increase significantly until the structures of their economies change. The report also states that the competitive need limitations under existing law are working effectively because they have reduced the trade of major beneficiaries which otherwise would have been eligible for GSP. Yet five advanced developing countries still receive 68 percent of the benefits.

Since the five countries with least need are likely to continue to receive the bulk of the benefits, why should we continue the program when its purpose of increasing foreign exchange earnings through improved market access for those countries in greatest need cannot be achieved? Isn't this basically a political program in which we participate more for foreign policy reasons than the economic results it may produce?

Answer. The most advanced developing countries receive a larger share of the benefits from the U.S. GSP for a number of reasons, many of which stem from the nature of the products eligible to receive duty-free treatment under the U.S. GSP. Ninety percent of the products currently on the GSP-eligible list are manufacturers and semi-manufacturers. Only countries which are far enough along the development path to have the infrastructure necessary to produce such items are able to participate in the U.S. GSP to any considerable extent. The production and export capacity of less advanced developing countries generally is in labor-intensive items such as processed foods, textiles and apparel, footwear and leather goods, most of which are statutorily excluded from the U.S. program.

The GSP was established with the objective of decreasing the reliance of developing countries on external assistance by encouraging diversity in their production and exports. Graduation of more advanced developing countries from GSP benefits on a product-by-product basis is intended to increase competitiveness among developing countries by offering less advanced developing countries increased opportunities to establish greater shares in international markets. Given the considerable changes required in the infrastructures and production capacities of many middle- and low-income developing countries, such a process, of necessity, must be a long-term one.

It is obvious that the elimination of the top five GSP beneficiaries from the U.S. GSP would greatly reduce the overall level of benefits offered by the U.S. program. Only a truncated program would remain, and most beneficiaries would not be able to increase their share of GSP benefits. In addition, the United States has the international obligation to maintain a GSP system comparable to that offered by its developed trading partners. A sudden reduction in the scope of the U.S. program would mean that other donor countries were shouldering a disproportionate share of the responsibility for offering tariff preferences to developing countries.

The GSP can be considered one among a number of possible approaches to foreign aid. By offering GSP benefits, the United States gives developing countries an incentive to improve their economic position through increased investment and industrialization. The GSP also encourages the full participation of developing countries in the international trading system. As indicated in the Report, the U.S. GSP in many cases has helped developing countries reach these economic goals. To the extent that GSP broadens and strengthens the economies of beneficiary developing countries, it likewise fulfills the foreign policy goals of the United States.

Question. The legislative history on the GSP authority states that "articles" to be considered for GSP eligibility "will in general refer to the five-digit tariff item numbers of the Tariff Schedules of the United States. Exceptions may be made to this rule if necessary to insure that an article is a coherent product category."

One of the private sector criticisms about administration of the program is that 5-digit tariff items have been subdivided and GSP granted on a portion of the original number even though the subdivision does not constitute a coherent product category. At the same time they claim "basket" categories containing competitive products have not been subdivided to remove them from GSP.

What is your response to these criticisms?

Answer. The subdivision of 5-digit tariff categories has created more coherent tariff categories, has provided a mechanism for responding specifically to private sector requests, and has enabled the purposes of the GSP program to be carried out while minimizing potential adverse effects on domestic competitors. The most frequent use of the mechanism has been to limit, rather than expand, GSP benefits.

Question. I understand that the People's Republic of China is joining the IMF and is showing interest in possibly acceding to the GATT. The PRC would then have met the statutory preconditions for becoming eligible for US GSP. The President's report seems to seek support or pave the way for the US to grant GSP to the PRC, pointing out that China receives GSP now from other major countries and is unlikely to be a major exporter of GSP articles in the foreseeable future.

What is the Administration's stance likely to be on granting GSP to the PRC and within what time frame?

Answer. Title V of the Trade Act of 1974 lists specifically the conditions which a Communist country must fulfill in order to be considered for eligibility as a beneficiary developing country under the U.S. GSP program. These conditions require that a Communist country receive most-favored nation (MFN) treatment from the United States, be a contracting party to the General Agreement on Tariffs and Trade (GATT), be a member of the International Monetary Fund (IMF) and not be dominated by international communism. The People's Republic of China was granted MFN treatment by the United States in 1979 and became a member of the IMF this year. Therefore, the one technical requirement yet to be fulfilled by China before GSP could be granted is GATT membership. However, even if China were to become a contracting party to the GATT, the United States Government would be under no obligation to designate China as a beneficiary of its GSP program. The Administration's action in this regard would depend greatly on the overall domestic and international economic situation prevailing at the time this question would be considered.

Question. Tables in the report indicate that a significant portion of potential GSP benefits in eligible articles—\$1.6 billion in 1979—are not realized because the 35 percent value-added requirement in the developing country was not met, the country did not provide the proper documentation, or for other administrative reasons. To what extent is this loss to developing countries due to the value-added requirement not being met, to what extent due to the developing countries themselves not taking advantage of the program, and do you know for what reasons?

Answer. Trade statistics on U.S. imports under the GSP are compiled by the Department of Commerce, Bureau of the Census, based on information supplied by the U.S. Customs Service. Currently these statistics do not reflect the specific reason why imports did not receive GSP duty-free treatment under the administrative exclusions. The Census Bureau reports instances where entries of GSP eligible imports from a beneficiary developing country were excluded from GSP duty-free benefits for some reason other than the competitive need limitations. The values of these entries are aggregated by TSUS category for each developing country. No further breakdown of this class of exclusions is made. Administrative exclusions include, among others, failure of products to meet the value-added rules of origin requirement or failure of the exporter and importer to provide adequate and proper documentation which is required in order for a shipment to receive GSP duty-free treatment. Therefore, at this time it is not possible to report more specifically the reason for loss of GSP treatment in cases other than competitive need. However, the Administration is recommending to the Bureau of the Census that the value of imports excluded for failure to meet the value-added rules of origin requirement be reported separately from the value of goods excluded for miscellaneous administrative reasons.

Mr. JONES. Are there any further questions of the committee?

Mr. LANGE. Although USTR carries the burden of this program, without the work of the interagency group represented in this audi-

ence, particularly Department of Labor, Ron Dobson; Department of Commerce, Steve Kaminsky; Department of State, Dave Wilson and Chuck Mast; Treasury, Henry Berghoef and Steve Jacobs; Department of Agriculture, Dewey Pritchard; Customs, Dave Ramsay; Department of Defense, Jim Carnes; Department of Interior, Dan Sullivan and Howard Anderson; and ITC, Alan Alper, of course, Customs would be unable to carry out this program.

Although we are here to take credit or noncredit, we would like to express appreciation to the other members.

Mr. JONES. We want to thank you for appearing today.

Thank you very much.

While our reporter is still in the room this morning, the Chair would like to call attention to the fact that our reporter, John Carr, today is retiring after many years of faithful and dedicated service in reporting on Capitol Hill. During most of this period he has been assigned by the Committee Reporters to Ways and Means and he has done an extremely fine job. We wish you the very best, John, in your retirement. [Applause.]

Our next witness is Dr. Rudolph Oswald, director of Department of Research, American Federation of Labor and CIO, to testify on the GSP question.

Dr. Oswald, welcome again to the subcommittee.

Your entire testimony will be included in the record and you may proceed to summarize.

STATEMENT OF RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. OSWALD. Thank you very much, Mr. Chairman.

Attached to my formal testimony is the testimony that we presented to the review operations held by the administration on this issue earlier.

The AFL-CIO welcomes this opportunity to comment on the operations of the generalized system of preferences, GSP. This program granted the President 10-year authority to give or deny zero tariffs or "preferences" to products imported from developing countries. This congressional review, we believe, will provide the committee with evidence to support the AFL-CIO policy that this program should be brought to an end.

An estimate of the revenue cost of this program now is about \$540 million in 1979. Next year, it will be greater. There are better ways to use one-half billion dollars in aid than through this windfall program. Most of the benefits go to industrial firms and not to development programs. This \$540 million amounts to more than a fourth of U.S. direct economic aid to developing countries. Yet most of this GSP aid goes to a handful of the most advanced of the developing countries—Taiwan, Hong Kong, Korea, Brazil, and Mexico.

GSP benefits currently are being extended to products for which trade adjustment assistance benefits have been and are being paid to workers. Other products where injury to American industry was established in dumping cases remained on the GSP preference list.

The Congress established the generalized system of preferences as title V of the Trade Act of 1974. The provisions were to help development of poor countries and to create mutual benefits for the United States. The President was given authority to choose products and countries to be given this special tariff benefit. Since then, of course, the multilateral trade agreements, negotiated internationally, have provided for special treatment for poor countries and have made this program obsolete.

We believe that the special treatment that is in that MTN agreement for developing countries has made this particular program obsolete.

In starting up this program, President Ford announced that 98 countries and 39 territories would be eligible for special treatment for their exports to the United States. In January 1976, a list of \$2.5 billion in product coverage was published, affecting imports of over 2,700 products. The value of imports under the program has grown over 100 percent to imports of \$6.3 billion in 1979.

The AFL-CIO has already presented the executive branch with an analysis of the first 5 years of operations within the context of the program. That analysis and its recommendations are attached.

The recent report to the Congress on GSP, however, shows that only about \$91 million of duty-free benefits in 1977 went to the poorest countries of the world, or 2 percent of the total GSP benefits of that year. It also shows that U.S. import sensitivity is already so great in the products such countries can easily provide that this type of program is not practical to promote development.

There are a few items that I would like to point out from the report that I think substantiates the position that we have taken that this program should be discontinued. It states in the report that the very poor countries have not been the basic beneficiaries; that a majority of countries believed GSP played only a marginal role in the development process; that MTN provision for special treatment for poor countries already recognizes graduation; that there was only limited evidence of GSP-stimulated investment and employment in beneficiary countries; that imports of GSP items would continue with or without GSP; and that there is no negotiated obligation to continue GSP.

The report has not provided much information, however, about the impact on U.S. producers and workers. We found this omission disappointing. The administrative review process has not worked. The AFL-CIO has been particularly disappointed in the failure to remove products which adversely affect many groups of U.S. workers. Electronic items, pianos, glass materials, and freight cars are specific examples.

Nor is enough information provided about the value and volume of imports of items affected by the generalized system of preferences or the places from which such products may be imported in the future. We urge the committee to seek more detailed information on the following two points:

One: What products and parts of products are affected by the tariff schedule numbers, 4 columns deep, on pages 89 to 103 of the report?

Two: How much output and how many jobs are now involved in the U.S. production of these products and how much output and how many jobs were lost in these industrial sectors in the past few years?

As for comparisons with other countries' efforts, the comparison in the report refers only to percentages instead of value of GSP. We think it would be useful to compare (a) the value of all imports from less developed countries in manufactured products, (b) the amount that has been received in each of the last 20 years from these countries, and (c) the effectiveness of other nations' limitations on GSP. Clearly the United States is the most open of the highly developed countries, even on GSP.

In short, Mr. Chairman, the program should be brought to an end because it is no longer needed. For very poor countries with special problems, special programs can be expanded or new policies developed. [The prepared statement follows:]

STATEMENT OF DR. RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF RESEARCH,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO welcomes this opportunity to comment on the operations of the Generalized System of Preferences (GSP). This program granted the President ten-year authority to give or deny zero tariffs or "preferences" to products imported from developing countries. This Congressional review, we believe, will provide the committee with evidence to support the AFL-CIO policy that this program should be brought to an end.

An estimate of the revenue cost of this program now is about \$540 million in 1979. Next year, it will be greater. There are better ways to use one-half billion dollars in aid than through this windfall program. Most of the benefits go to industrial firms and not to develop programs. This \$540 million amounts to more than a fourth of U.S. direct economic aid to developing countries. Yet most of this GSP aid goes to a handful of the most advanced of the developing countries (Taiwan, Hong Kong, Korea, Brazil, and Mexico).

GSP benefits currently are being extended to products for which Trade Adjustment Assistance benefits have been and are being paid to workers. Other products where injury to American industry was established in dumping cases remained on the GSP preference list.

The Congress established the Generalized System of Preferences as Title V of the Trade Act of 1974. The provisions were to help development of poor countries and to create mutual benefits for the U.S. The President was given authority to choose products and countries to be given this special tariff benefit. Since then, of course, the multilateral trade agreements, negotiated internationally, have provided for special treatment for poor countries and have made this program obsolete.

In starting up this program, President Ford announced that 98 countries and 39 territories would be eligible for special treatment for their exports to the U.S. In January 1976, a list of \$2.5 billion in product coverage was published affecting imports of over 2,700 products. The value of imports under the program has grown over 100 percent to imports of \$6.3 billion in 1979.

The AFL-CIO has already presented the Executive Branch with an analysis of the first five years of operations within the context of the program. That analysis and its recommendations are attached.

The April 1980 report to the Congress on GSP, however, shows that only about \$91 million of duty-free benefits in 1977 went to the poorest countries of the world,¹ or 2 percent of the total GSP benefits of that year. It also shows that U.S. import sensitivity is already so great in the products such countries can easily provide that this type of program is not practical to promote development.²

Thus, the report shows that the purposes of the GSP program have not been borne out:

The very poor countries have not benefited (p. 12-13).

A majority of countries believed GSP played only a marginal role in development process (p. 32-33).

¹ p. 13 "In 1977, total GSP imports from the 30 LDCs were only \$91 million." Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (GSP) Apr. 17, 1980.

² Ibid. p. x.

The MTN provision for special treatment for poor countries recognizes graduation (p. 3).

There was only limited evidence of GSP-stimulated investment and employment in beneficiary countries (p. 35).

Imports of GSP items would continue with or without GSP (p. xi).

There is no negotiated obligation to continue GSP (p. 4).

The report has not provided much information about the impact on U.S. producers and workers. We found this omission disappointing. The Administrative review process has not worked. The AFL-CIO has been particularly disappointed in the failure to remove products which adversely affect many groups of U.S. workers. Electronic items, pianos, glass materials and freight cars are specific examples.

Nor is enough information provided about the value and volume of imports of items affected by the Generalized System of Preferences or the places from which such products may be imported in the future. We urge the Committee to seek more detailed information on the following two points:

1. What products and parts of products are affected by the Tariff Schedule numbers, four columns deep, on pages 89 to 103 of the report?

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As for comparisons with other countries' efforts, the comparison in the report refers only to percentages instead of value of GSP. We think it would be useful to compare (a) the value of all imports from less developed countries, in manufactured products; and (b) the amount that has been received in each of the last 20 years from these countries; and (c) the effectiveness of other nations' limitations on GSP. Clearly the U.S. is the most open of the highly developed countries, even on GSP.

In short, Mr. Chairman, the program should be brought to an end because it is no longer needed. For very poor countries, with special problems, special programs can be expanded or new policies developed.

[ATTACHMENT]

STATEMENT OF DR. RUDOLPH OSWALD BEFORE THE GSP SUBCOMMITTEE OF THE TRADE POLICY STAFF COMMITTEE, ON THE FIVE YEAR REVIEW OF THE OPERATION OF THE GENERALIZED SYSTEM OF PREFERENCES—SEPTEMBER 20, 1979

The AFL-CIO welcomes this opportunity to present our views on the operations of Title V of the Trade Act of 1974—the Generalized System of Preferences—which provides special zero tariffs for imports from developing countries. Starting in 1976, the United States provided these special trade preferences for imports of more than 2,700 separate products or parts of products from about 140 low-wage countries and territories.

The AFL-CIO supports help for poor people in poor countries and the healthy development of the world's economies. For more than three decades, the AFL-CIO and its affiliates have participated in programs designed for that purpose. Two recent representative policy statements are attached. (Appendix A)

It is important to continue to review GSP because the world continues to change. Massive transfers of capital, production and technology tend to create high levels of industrialization in some countries without helping the poor. In others, windfalls from high-priced oil and raw materials causes inflows of foreign exchange to LDCs which far exceed even the imagination of those who first proposed preferences. The so-called "developing" countries now include some very rich and highly industrialized nations, as well as some tragically poor countries. The differences in wealth, population, size and resources in countries make a reevaluation critical.

It is important to review who are the real beneficiaries of industrialization and whether the working people of the countries are receiving the benefits, or whether the multinationals and powerful elites are the major beneficiaries. Sad to say, it is our experience that most of the benefits have gone to multinational firms and powerful elites. In many cases, the preference system has helped feed the export-led development which has not proved beneficial to the people even of those countries. Real wages have actually declined in some countries where the "miracles" of development are heralded. Furthermore, the problem of economic distortion for U.S. production and jobs has grown.

In adopting Title V of the Trade Act of 1974, Congress tried to limit the program so that imports would not harm the United States, and so that the countries which could compete effectively in world trade would not get most of the benefits.

Unfortunately, the U.S. trade balance has worsened since 1974, and the imports from developing countries have increased rapidly. An analysis of imports from countries using GSP show that the program has contributed to a deterioration of the U.S. position. Furthermore, the leading countries which get GSP are not the poorest countries.

In 1978, the U.S. had a trade deficit of \$30 billion more imports than exports, and a deficit of \$6 billion in manufactured products. The U.S. was over \$5 billion in deficit with 3 leading users of GSP. (Taiwan, Hong Kong and Korea) (Appendix B)

Total GSP imports from all nations amounted to \$5.2 billion in 1978, a rapid increase from the \$2.6 billion of GSP imports in 1970.

The list of products includes many items varying from copper and sugar to non-diesel piston engines to airplanes, toys and parts.

The five leading users of GSP accounted for \$21 billion of U.S. imports. Imports from these countries include items eligible for GSP as well as a great amount of non-GSP items.

Furthermore, the countries which got GSP from the U.S. had access to other world markets. The 16 countries which received 60 percent of GSP in 1978 exported over \$110 billion to the world that year. The five leading users of GSP in the U.S. had over \$56 billion in exports to the world in 1978, according to International Monetary Fund data. (Appendix C)

The U.S. exports to these countries rose, but U.S. shares of developed countries' exports to developing countries have dropped. Japan has increased her share. Other developed countries have kept an even share.

But any set of data understates the true impact of GSP for three reasons: One, the impact of imports does not stop with the removal of GSP. Imports continue. Only the tariff is reimposed. The fact GSP exists encourages initial foreign production of the item for exports to the U.S. Instead of U.S. investment, foreign investments are made. Subsequently, U.S. capacity becomes obsolete and is allowed to go idle and U.S. production may cease entirely. Third, as one type of item is removed from GSP another may be added. A current proposed list of deletions and additions demonstrates the continually shifting program. (Appendix D) The result is that no single figure gives a realistic picture of the effect of GSP imports.

Title V of the Trade Act of 1974 includes limitations which seek to avoid disruption to U.S. production and provide benefits to those countries that truly need it. Section 501 and 503 of the Trade Act make it clear that the President had the authority to choose countries and products for the list for this unilateral benefit. However, in making these decisions, three major standards were clearly stated:

(1) The President was to show "due regard" for the impact on U.S. producers, (Section 501 (3)).

(2) The President was to limit the granting of benefits to products which were not "import-sensitive" (Section 503).

(3) An elaborate "competitive need" formula was devised to make sure that countries which could compete in world trade would not get all the benefits (Section 504).

The administration of the program modified or ignored many of the covenants and rules of the Congress. The instruction to show "due regard" for U.S. producers has not been fully carried out because U.S. producers have not had adequate notice about the program. The Congressional intent that those best equipped to know the impact were to advise the President of potential problems has not been fully carried out. Instead, massive lists of numbers are published in the Federal Register without product identification. Experts and a few others then can discuss them.

For example, President Ford issued a list of tariff numbers on January 1, 1976 covering \$2.6 billion in imports. Not even the names of the products were published. Over 2700 items—including TV parts, fasteners, doors and other products where U.S. jobs and production have been suffering—were included.

President Carter issued a list on March 1, 1977 covering \$3.5 billion in imports. Imports were coming in under GSP at a rate of \$300 million a month. In 1978,

they were coming in at a rate of more than \$400 million a month or over \$5 billion.

There is no doubt the administration of GSP has improved since 1976. Hundreds of items have been re-examined. But a range of products from drydocks to air-conditioning equipment, from fasteners to polyvinyl chloride are left on the list despite the impact of these imports on U.S. production. The burden of proof for removing an item from the GSP list is still on the injured. The must prove facts that are often not available to them.

Administrators of GSP should help injured parties and obtain information from multinationals, foreign governments and other governmental agencies concerning key facts about specific products—where and how they are produced and what future "development" plans are underway. The job of the administrators should be to represent the U.S. producers' interest—not exclusively the foreign policy concern.

The direction to omit import-sensitive items has not been administered effectively. Instead, countries' desires for exports to the U.S. seem to outweigh clear evidence that injury in the U.S. has taken place or may occur. Where market penetration is great, dumping has been found, escape clause actions are pending and/or trade adjustment assistance has been granted, import-sensitivity clearly exists. But a number of products involved in such cases are still on the list.

A special problem is import-sensitive electronic products which were specifically excluded in Section 503. But time and time again, imports of electronic items and parts were given this special tariff treatment. The cathode ray tube, important for the production of certain types of black and white TV, radar and other uses, is just one example. Continued evidence of job losses by some of the affiliates of the AFL-CIO concerning some other electrical products have not resulted in any change.

Another example of administrative problems was the import of the newest oil drilling rigs—a type of product needed to solve America's technological demands for energy development. It took the combined efforts of a great many AFL-CIO affiliates—plus the Industrial Union Department, the Building Trades Department, and the Maritime Trades Department—to get action on this item. The date of action is not until March 2, 1980. Meanwhile, the union which brought the case lost the jobs and job opportunities that went with such production. The beneficiary was not a "poor" country, but a major multinational construction firm which was getting another tax break from Uncle Sam at the expense of workers everywhere.

Furthermore, this case is an example of another concern: The evidence of unsafe and unhealthy labor conditions is often clear. The Ironworkers stated in seeking an end to GSP for oil drilling rigs: "Let me call your attention to the photographs submitted by the American-based fabricator which so clearly illustrate intolerable and unsafe work conditions, totally unacceptable in the United States, which do, in reality, eliminate substantial costs to any contractor. This is particularly true when those costs are compared to competitive bids which would have the work performed in the United States under proper and safe work conditions. This gives substantial evidence and credence to the 'ugly American' image this country has in foreign lands. It is unfortunate indeed that we achieve such an image through no fault of our government, but we certainly should not tolerate additional tax subsidies for procedures that expand such an image."

Next week, once again, this committee will hear about serious specific problems in industries where the injury has been longstanding and the jobs have already been decimated. Yet the petitions by foreign governments or U.S. importers will appear to have preferential status over U.S. injured parties. Some examples are: pianos, eyeglasses, ceramic tile, glass materials of various kinds, wood blinds, shades and screens.

U.S. producers of pianos and musical instruments have already been adversely affected by imports. Escape clause findings in past years have demonstrated losses of jobs and production. But the fact that a foreign government or a U.S. importer now seeks another tax advantage for his imports means that the union representing workers in this industry must prove that the special tax breaks should not be granted to imports or the remaining jobs will be lost. Eyeglasses have been imported at an accelerating rate and cost jobs in many parts of the U.S. This is a well-known fact. But again, the union representing those workers must bear the burden of proof in a public hearing in the hope that action will be taken in their interest. Ceramic tile and a list of glass items—including items ravaged by imports in the past—are also on the list of petitions. Imports of wood, blinds, shades

and screens are a serious problem, already with a 20 percent market penetration, in an industry plagued by job losses.

The electronic items for next week's hearing need no further discussion at this point. But it is interesting to note that electronic item after electronic item still appears on the list.

The "competitive need" formula has been administered in a confusing way. For example, the GSP status may be reimposed if the country requalifies for the "competitive need" formula. This has been used to reimpose GSP instead of to assure that only needy countries qualify. This makes a mockery of the concept that this program is designed to help poor countries get into world markets. What it does is to provide windfalls for already competent producers and to pit country against country, making all of them unhappy with the U.S.

A good example of this is the current problem of GSP for imports of freight cars. Posed as a "Mexican" problem, the Congress has been asked to suspend tariffs on freight cars for the next two years. They had the same request in the last Congress. Meantime, Mexico was removed from the GSP list because it supplied more than half of U.S. freight car imports and thus had no "competitive need." Now that imports are coming in from Canada, Romania, and from other countries, the GSP competitive need formula may be applied again and Mexico may requalify. The impact in the U.S. is to discourage needed expansion of production. The impact abroad is that each country, in effect, will be annoyed no matter what the U.S. does. If the tariff is suspended, the Mexicans will lose to other countries. If the tariff is not suspended, other countries will complain. If Mexico gets GSP and others do not, the anger of others will grow.

Another example of an unusual inclusion on the list is polyvinyl chloride. Imports quadrupled between 1975 and 1978. About 90 percent came in under GSP from Taiwan. "Competitive need" was effectively met long ago because clearly Taiwanese exports compete. Dumping has been found for polyvinyl chloride imports. But GSP has continually been applied. Now U.S. producers must seek action and prove their need to have it removed.

GSP for imports from OPEC countries was prohibited in 1974. This prohibition was removed in the Trade Agreements Act of 1979. There is no requirement that GSP be granted to these nations, and we believe that their extensive favorable balance of trade makes GSP unnecessary for OPEC countries.

Even though some sensitive, typically low-wage items are excluded from the GSP list, they are not excluded from the U.S. market. Many of these items are produced in developing countries and exported to the U.S.

The United States' imports of textiles, apparel and shoes have literally zoomed upward for two decades. The bulk of U.S. imports of textiles came from less developed countries. The Multifibre Agreements have always allowed the exports from poor countries to reach U.S. markets. Nor has the import of shoes ever been cut off. Low wages and other advantages in other countries are far greater than U.S. barriers to such imports.

While other industrialized countries have their own preference systems for developing countries, they have more restrictions on the granting of such preferences.

The European Economic Community started preferences in 1974 with a vastly different system and with vastly different results. The product coverage appears to be more widespread, but global tariff quotas are applied on import sensitive and other items.

The EEC rules prohibit any country from supplying more than a fixed percentage of duty-free imports to any country in EEC.

Thus, the 50 percent rule is not like the U.S., where if a country supplies 50 percent of all U.S. imports of the product, there is no longer a "competitive need" and the product is removed.

The EEC Council Regulation No. 3019/76 states: "preferential imports from any one developing country in respect of a given product should not, as a general rule, exceed 50 percent of the ceiling fixed for that product." That in practice works out to 30 percent for travel goods, 20 percent for chairs, 15 percent for radios and electronic equipment.

CONCLUSIONS AND RECOMMENDATIONS

The United States GSP program has not worked as planned. It has not necessarily aided economic conditions of workers abroad and has actually harmed workers in the U.S.

The benefits of the program have largely gone to multinationals and elites abroad. The majority of benefits have gone to a few countries who seem to need it least.

Help for poor people and poor countries must be more direct and more developmental. Some allies need help and a very direct grant is more beneficial than this export-oriented and, therefore, inflationary trade. As it stands, GSP largely helps the rich and the powerful.

If the United States believes it should not repeal GSP, considerations should be given to phasing out coverage of some countries, as well as the removal of certain products.

At the very least, the benefits should be withdrawn from those countries and products whose trade patterns are actual or potential threats to the U.S.

Some criteria could be developed to remove the most industrial and successful world exporters now thriving in world trade and give GSP only to the poorest.

Criteria for removing a country from GSP eligibility could be:

- (A) \$1 billion in exports to the U.S. and/or
- (B) \$500 million in GSP, and/or
- (C) \$1,000 per capita GNP, and/or
- (D) a trade surplus in manufactured products with the U.S.

Criteria for removing a product could be:

- (A) A product ceiling for a broader category of products such as a \$200 million ceiling for all products in a three-digit SIC category from any one country, and/or
- (B) A U.S. cut-off of a product at \$200 million of a specific item imported from all GSP countries.

Adoption of some such criteria would be a start toward fulfilling the Congressional intent of providing GSP to those countries that really haven't yet developed a trade capability, and for quantities of products that will not harm U.S. producers.

Appendix A

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL

(Segment of the International Trade Resolution)

5. Repeal Title V of the Trade Act which provides undue preference for imports from low-wage countries.

Preferences or zero tariffs for imports from low-wage countries are obsolete and unrealistic. Total imports from developing countries now account for more than half of all United States imports. Manufactured imports are increasing very rapidly from these countries. Worker exploitation, abandonment of human rights and hideous working and living standards prevent potential benefits of rapidly-expanding trade from reaching the people of these countries.

PROSPERITY IN ASIA

The AFL-CIO is seriously concerned with the emphasis placed by some in Asia and elsewhere on exports as the sole or major solution to the economic, social and political problems of the less developed countries.

Export-oriented economies tend to distort demographic patterns by attracting people from rural to urban area further complicating the prospects for agricultural self-sufficiency and agrarian reform. These export platforms shift attention away from vital local issues and needs such as education and manpower training, labor and social standards, housing and the development of free trade unions and effective collective bargaining. Also obscured is the urgent necessity to curb large outflows of private capital by the wealthy and the political oligarches.

Trade surpluses have no meaning for the workers of developing countries when they are built upon the subjugation of trade union freedoms and the denial of human dignity. Such surpluses all too frequently serve only the aspirations of political or economic elites and the profit margins of multinational corporations.

Prosperity, growth and improved living conditions for their people are the serious needs of the developing countries. The construction of strong and equitable economies requires the essential foundation of expanding domestic and internal consumer markets. Workers and their families must be able to partake in these gains and receive a fair share of the wealth they have helped to produce.

The Executive Council believes that a strong, free and democratic trade union movement is vital and indispensable to this process and will help bring an end to exploitation of people based on cheap labor.

APPENDIX B

U.S. TRADE WITH DEVELOPED AND DEVELOPING COUNTRIES, 1974 AND 1978—10 LEADING COUNTRIES USING GSP 1978

(In billions of dollars)

	1974			1978			
	Exports	Imports	Balance	Exports	Total imports	GSP imports	Balance
Developed countries.....	63.0	59.8	-1.7	85.6	99.9		4
Developing countries.....	32.7	39.4	-6.7	52.9	71.3		-13.4
Mexico.....	12.6	3.4	+9.2	6.7	6.1	0.5	+6
Brazil.....	3.1	1.7	+1.4	3.0	2.8	.5	+2
Argentina.....	.6	.4	+2	.8	.6	.1	+2
Yugoslavia.....	.3	.3	0	.5	.4	.2	+1
Taiwan.....	1.4	2.1	-.7	2.3	5.2	1.4	-2.9
Israel.....	1.2	.3	+9	1.9	.7	.2	+1.2
India.....	.8	.6	+2	.9	1.0	.1	-.1
Singapore.....	1.0	.6	+4	1.5	1.1	.2	+4
Korea.....	1.5	1.4	+1	3.2	3.7	.6	-.5
Hong Kong.....	.9	1.6	-.7	1.6	3.5	.5	-1.9
Total.....	23.4	32.4	11.0	22.4	25.1	4.3	-2.7

Source: Highlights of U.S. Export and Import Trade, U.S. Department of Commerce, December 1974, December 1978.

APPENDIX C

EXPORTS TO THE WORLD AND TO THE UNITED STATES BY 16 MAJOR SUPPLIERS¹ OF GSP TO U.S. PRODUCTS

(In billions of dollars)

Developing countries	1978 total to world	1979 total to the United States
Taiwan.....	12.6	5.0
South Korea.....	12.7	3.9
Hong Kong.....	11.5	3.5
Brazil.....	12.7	2.8
Mexico.....	6.8	5.6
Israel.....	3.9	.7
Singapore.....	13.0	1.7
Yugoslavia.....	5.7	.4
Argentina.....	7.0	.6
India.....	7.1	1.0
Chile.....	2.5	.4
Peru.....	1.8	.6
Portugal.....	2.4	.2
Philippines.....	3.4	1.1
Uruguay.....	.7	.1
Romania.....	7.0	.3
Total.....	110.8	27.9

¹ These countries' preferences represented 90 percent of U.S. imports under GSP.

Source: International Monetary Fund.

APPENDIX D

ANNEX II

Annex II to Executive Order No. 11888, as amended by Executive Orders Nos. 11006, 11934, 11974, 12032, 12041, and 12104 and Proclamation Nos. 4561 and 4632 is amended—

(a) By deleting the following TSUS item numbers

106.70	222.34	417.22	603.45	682.60	726.90
107.48	240.10	418.24	610.66	683.15	731.10
107.65	240.12	418.78	610.71	684.10	731.30
107.80	240.21	420.78	612.40	684.70	731.50
121.15	240.30	420.98	622.40	685.40	731.60
121.55	240.34	422.24	632.60	686.24	732.62
121.56	240.50	426.34	646.82	687.30	734.20
146.12	240.56	427.08	650.83	688.30	735.09
147.36	245.00	427.16	650.89	689.10	737.35
148.25	245.20	437.24	651.13	696.50	740.75
152.54	252.25	455.16	651.45	702.14	741.15
152.58	254.56	455.30	651.51	702.20	748.15
154.40	254.58	460.60	651.62	702.47	748.40
154.55	304.40	465.15	652.98	706.47	751.15
161.53	304.58	473.32	653.25	708.57	756.40
161.69	308.35	473.50	653.51	708.91	760.38
162.11	308.55	522.71	657.30	710.36	774.35
177.12	355.20	531.21	660.42	722.55	790.07
200.06	364.14	544.11	676.26	724.35	790.59
200.91	365.05	545.31	680.52	725.32	791.17
220.50	408.40	546.21	680.54		

(b) By adding in numerical sequence, the following TSUS item numbers

112.94	222.62	426.12	612.02	650.21	702.40
113.60	240.38	427.60	612.60	650.31	710.34
131.35	240.40	445.20	612.63	650.45	711.30
134.38	240.58	460.35	622.25	650.56	713.17
140.09	254.63	460.70	624.40	650.79	723.32
140.14	306.53	470.15	624.42	651.33	728.20
140.55	306.71	473.62	624.50	651.49	730.77
145.52	308.51	473.78	628.40	652.93	731.70
149.15	308.80	490.30	628.50	652.97	732.38
153.02	337.20	494.40	629.26	652.90	734.40
153.03	361.21	514.44	642.08	653.30	734.42
153.28	366.84	515.54	642.14	653.52	734.54
156.35	370.17	517.21	644.28	680.53	748.20
156.45	386.09	517.24	646.04	680.54	750.52
161.75	387.32	520.39	646.88	680.55	771.45
166.30	403.40	540.47	646.89	680.56	773.20
176.15	405.45	545.35	648.80	685.34	790.60
176.70	407.12	546.23	648.89	688.20	791.20
182.10	417.20	601.54	649.71	700.54	791.26
188.34	419.00	602.30	649.89	702.08	791.70
204.40	420.02	604.50	650.15	702.25	792.30
222.44	420.82	607.65			

ANNEX III

TSUS ITEM NUMBER

106.70	168.15	308.30	516.76	676.23	734.20
107.48	176.33	308.35	518.41	676.52	734.25
107.65	177.12	308.50	520.35	678.50	734.30
107.80	177.72	308.55	522.71	682.60	734.34
114.05	182.90	319.01	531.21	683.15	734.51
121.15	184.65	319.03	533.26	683.70	734.56
121.52	186.20	319.05	535.31	683.80	734.50
121.55	186.40	319.07	544.11	684.10	734.75
121.56	190.68	335.50	545.31	684.50	734.87
130.35	192.85	347.30	545.37	684.70	735.09
130.40	200.06	355.04	545.53	685.24	735.11
135.51	200.91	355.20	545.65	685.40	735.20
135.80	202.40	360.35	545.81	685.90	737.25
135.90	202.62	364.14	545.85	686.24	737.30
136.00	203.20	365.05	546.21	686.30	737.35
136.30	206.45	389.61	547.41	687.30	737.50
136.80	206.47	403.58	603.45	688.10	737.80
136.92	206.60	403.79	610.66	688.12	737.95
137.40	206.98	408.40	610.71	688.30	740.10
131.71	220.10	408.75	612.03	688.40	740.30

ANNEX III—Continued
TSUS ITEM NUMBER—Continued

137.75	220.15	416.05	612.06	690.15	740.34
138.05	220.20	417.22	612.15	692.27	740.38
140.21	220.25	418.24	612.40	696.10	740.75
140.25	220.35	418.78	613.15	696.35	741.15
141.35	220.37	420.78	622.40	696.50	741.20
141.55	220.41	420.98	626.22	702.14	741.50
141.70	220.48	422.24	632.60	701.15	745.08
141.77	220.50	422.75	646.82	702.20	748.12
145.08	222.10	425.44	646.86	702.45	748.15
145.53	222.34	426.34	646.98	702.47	748.40
145.60	240.02	427.06	649.75	703.20	750.05
146.12	240.10	427.16	650.83	703.65	750.35
146.22	240.12	437.16	650.87	703.75	751.05
146.44	240.16	437.24	650.89	704.34	751.10
147.33	240.19	437.64	651.01	706.60	751.15
147.36	240.21	446.10	651.13	706.67	751.20
147.80	240.30	455.16	651.45	708.57	756.40
147.85	240.34	455.30	651.51	708.91	760.38
147.83	240.50	460.60	651.62	710.36	760.65
148.12	240.56	461.15	652.84	713.15	772.03
148.25	245.00	465.15	653.02	713.19	772.35
148.35	245.20	465.70	653.25	722.55	772.51
148.72	242.25	466.05	653.47	724.35	772.97
148.77	254.56	473.32	653.48	725.32	773.10
149.50	254.58	473.50	653.70	726.70	774.35
152.43	256.60	473.52	653.85	726.90	774.60
152.54	256.85	473.56	653.93	727.31	790.07
152.58	304.04	473.82	657.24	730.35	790.39
154.40	304.40	493.21	657.30	730.27	790.59
154.55	304.44	511.31	660.42	730.29	790.61
155.20	304.48	514.11	650.44	730.41	790.62
155.35	304.58	515.54	662.18	731.10	790.70
156.40	305.22	516.24	662.35	731.30	791.17
161.53	305.28	516.71	672.10	731.50	791.80
161.69	305.30	516.73	674.56	732.62	792.50
162.11	306.52	516.74	676.20	724.10	792.60
					792.75

Mr. JONES. Thank you, Dr. Oswald.

The administration reports indicate the GSP imports constitute only 4 percent of the nonpetroleum industrial imports and are not a part of imports in industrial sectors. One reason you stated you oppose the program, you believe it adversely affects U.S. workers and producers. Do you have any evidence that shows that GSP imports, as opposed to imports, generally have had an adverse effect that have not been taken care of by excluding the product from the program, any significant effect?

Mr. OSWALD. Mr. Chairman, we do have evidence that there are products on which workers have received trade adjustment assistance. There have been products where injury has been found by the Trade Commission in terms of dumping and other activities which have remained on the list.

I don't say that all trade problems come from GSP; that would be far from the truth. It is a program that adds to particular trade problems and particular aspects on particular products and, we feel, distorts the benefits for some of the most advanced developing countries and spends over half a billion dollars in a way that is not well targeted.

Mr. JONES. You obviously disagree in response to Mr. Frenzel's question of the previous administration witnesses when he asked what would happen if we repealed it. They indicated it would have a very adverse impact on our relationship with the developing countries.

Mr. OSWALD. Mr. Chairman, it is clear from the new MTN requirements that we have there that we are not bound to maintain GSP. That is a grant of this Congress and the United States unilaterally.

We believe it is necessary for the poorest of developing countries, but we don't think that the best means of providing that aid is through a GSP program that means a half billion dollars of lost revenue that goes in many cases to the wrong parties, rather, and does not necessarily help for diversified development that this whole program was to bring about.

Mr. JONES. Are there any questions?

Mr. FRENZEL?

Mr. FRENZEL. When you are talking about the half billion dollars, or \$540 million, you are talking about Customs duties foregone?

Mr. OSWALD. That is correct.

Mr. FRENZEL. We expect that some day China will join the GATT and then will be eligible for GSP. Are you concerned about the potential there?

Mr. OSWALD. Very much so. We believe that there are all sorts of special problems with a country like China. It is not a free trading democracy. It is a governmentally determined economy. It will send whatever items that it pleases, in its best interests, not necessarily in the U.S. best interests.

Mr. FRENZEL. Do you have any particular commodities over there you worry about?

Mr. OSWALD. There are numerous products. As you know, for the past 18 months, we have been trying to negotiate an agreement with the Chinese on textile products and we have not been able to negotiate that. We have been concerned with glass products, with a series of sensitive items. They have increased their steel production capabilities substantially. There would be concern across the board with their ability to zero in on any single product and really devastate the industry in that light.

Mr. FRENZEL. Thank you very much.

Do I understand your testimony correctly that you would like to get rid of the entire GSP program and look on some bilateral assistance program for aid to the developing countries?

Mr. OSWALD. That is correct.

Mr. FRENZEL. I want to thank the witness for his testimony.

Mr. JONES. Mr. Vanik?

Mr. VANIK. Mr. Chairman, in our recent visit to China, we spoke to the people about this bilateral textile problem and reminded them. They did not seem to know that they were up for MFN renewal and they did not seem to be very understanding of our law. I would hope that the bilaterals would be concluded before we take up the issue of renewing MFN to China. It can be fairly positively stated that should be settled and done.

Beyond textiles, you mentioned glassware. Is there any prospect of bilateral settlement in any issue other than textiles?

Mr. OSWALD. We would like to be sure steel is included also.

Mr. VANIK. In the near future?

Mr. OSWALD. Not to become a signatory to any steel program that is established so that it is not excluded from such a program policy.

Mr. VANIK. I would agree with you, and I would hope that we can somehow get the People's Republic to understand this is our expectation before we could consider renewal of their trade relationship.

Mr. OSWALD. I am very gratified by your words, Mr. Vanik, because we had hoped that a multifiber agreement would have been resolved 12 months ago. We thought it was all on track and it still is far from being resolved.

Mr. VANIK. Mr. Frenzel and Mr. Jones were there to reinforce it. We did it together. I considered that was one of the useful things we did in that colloquy with the Chinese.

Mr. JONES. With no further questions, we appreciate your testimony.

We will take a 10-minute recess for this vote and return immediately.

The next witnesses will be Howard D. Samuel, president, Industrial Union Department, AFL-CIO, and Amory Houghton, Jr., chairman of the board, Corning Glass Works.

[A recess was taken.]

Mr. MOORE. The subcommittee will come to order.

Let me announce, at 2 o'clock we are going to have to recess the meeting of this subcommittee to move to room 210 in this building. We have to relinquish this committee room at that time.

Let me announce to the expectant group in the audience that there has been a coup and the Republicans have now taken control of the House, and I am the lone survivor and have been asked to take over this committee. We will dispense with the hearing and ask that the bills I have brought forward.

Seriously, though, we will continue with public witnesses on the generalized system of preferences. I believe we have the Labor-Industry Coalition for International Trade before us.

STATEMENT OF HOWARD D. SAMUEL (PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO), AND AMORY HOUGHTON, JR. (CHAIRMEN OF THE BOARD, CORNING GLASS WORKS), CO-CHAIRMEN OF THE LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE (LICIT); ACCOMPANIED BY BRIAN TURNER, CHIEF ECONOMIST OF INDUSTRIAL UNION DEPARTMENT, AFL-CIO; AND ELLIOTT ABRAMS, COUNSEL, LICIT

Mr. SAMUEL. Let me introduce ourselves. Besides the two principal witnesses, we have with us Mr. Brian Turner, chief economist of the Industrial Union Department, AFL-CIO and Mr. Elliott Abrams, an associate of Allan Wolff, who is counsel of our coalition.

Mr. Houghton will be the first witness.

Mr. HOUGHTON. Mr. Chairman, my name is Amory Houghton, Jr., chairman of the board, Corning Glass Works. I appear here today with Howard Samuel, who has just spoken, president of the Industrial Union Department, AFL-CIO. We speak for the Labor Industry Coalition for International Trade. Mr. Samuel and I are cochairmen of this group. It is a new group and I would like to very briefly describe its purpose. At the end of my comments, Mr. Samuel will then give our views on the GSP.

Our coalition, Mr. Chairman, was founded last year. It is a group of companies and unions. We desire to promote open and fair competition in international trade and I will submit a list of the member unions and companies.

This coalition grows out of labor-industry contacts last year. We have a common ground, we believe, in rejecting the inferences now represented by those vastly oversimplified terms of free trade and protectionism. Our focus is to support an augmented balance of trade relations. We have joined together because we believe sensible trade policies will benefit not only American labor but also the consumer. Our program includes several things.

In addition to keep interest in GSP, we are seeking vigorous enforcement of the Trade Agreements Act of 1979. We seek reciprocal trade policy based on the principle of equal access for American products.

We are interested in the revision of international laws with respect to dumping, and specifically endemic dumping.

We favor promotion of U.S. exports.

We would like to see the elimination of trade-related restrictions, such as performance requirements, minimum export, and local content requirements.

We would like to feel this is but one opportunity. Mr. Chairman, we will have to discuss a variety of international trade matters with the Congress of this country.

After discussion and reflection, our coalition has reached a conclusion about GSP which Mr. Samuel will discuss in just a moment. Before he does, I would like to say we seek only to strengthen the program, to have the original intent of Congress fulfilled. We agree its purpose—to help developing countries—has been right and we believe in many cases the program has done precisely that.

At the same time, we believe GSP is not currently working as it should, and its value to the poorer nations is limited. We feel, therefore, GSP can be restructured to bring its goals and results more closely in line, and that is why we are here today.

Finally, the representatives of Labor-Industry Coalition believe strongly in the importance of production in trade between nations. We understand the need for less fortunate nations to have access to our markets through the GSP. We believe the survival of our system of government depends on the strength of the economy, and this means job generators as well as producers and consumers.

Finally, the most precious thing we can watch over is our market; and, as they watch over theirs, we feel we watch over ours. If we don't, this country may ultimately become a warehouse for products we can buy.

[The prepared statement follows:]

STATEMENT OF AMORY HOUGHTON, JR.

Mr. Chairman, my name is Amory Houghton, Jr., and I am Chairman of the Corning Glass Works in Corning, New York. I appear here today with Howard D. Samuel, President of the Industrial Union Department of the AFL-CIO. We speak for The Labor-Industry Coalition for International Trade. Mr. Samuel and I are the Co-Chairmen of this Coalition. It is a new group, and if you would permit, I would like to describe its purpose. At the conclusion of my brief remarks, Mr. Samuel will present the Coalition's views on GSP or the Generalized System of Preferences.

Our Coalition—affectionately referred to as LICIT—was founded in 1979 by a group of companies and trade unions. Its genesis evolved from a desire to pro-

more open and fair competition in international trade. For the record, let me submit a list of the member unions and corporations on whose behalf we appear today.

The Coalition grows out of labor-industry contacts made during the MTN process of last year. Many in the business community and in labor have found common ground in rejecting the inferences now represented by the vastly oversimplified terms such as "free trade" and "protectionism." Our focus is to support augmented, balanced, equitable trade relations. We have joined together since we believe that sensible trade policies will not only benefit American business and labor, but on an even broader scale the American consumer. Our program includes—in addition to a keen interest in GSP—several other initial goals. First, we seek vigorous enforcement of the Trade Agreements Act of 1979, both with respect to action against foreign dumping and subsidies, both obvious and subtle, which put American producers at a disadvantage, and with respect to open access for American goods in world markets through implementation of the new international codes on product standards, government procurement, and customs valuation practices. Second, we seek a reciprocal trade policy based on the principle of equal access for American products to the markets of our international trading partners. Third, we are interested in the revision of U.S. laws so as to deal with several types of abuses, such as dumping and subsidies by non-market economies, including "endemic dumping," meaning the dumping of a product over an extended period of time. Fourth, we favor vigorous promotion of U.S. exports, by improving support services for U.S. exporters, and by reducing foreign barriers to U.S. goods. Fifth, we would like to see the elimination of trade related performance requirements—"minimum export" and "local content" requirements—which foreign governments increasingly impose on American and other investors. These practices reflect a policy of governmental fiat which works to distort the natural international market forces, exports American jobs, and contradicts the concept of comparative advantage.

We would like to feel that this is one of many opportunities we will have to discuss international trade matters with the Congress of the United States. In so doing, we hope such an exchange may be of use not only to us, representing part of the producer side of the economy, but also to you in the formulation of trade policy.

After extensive discussion and reflection on the program among the principal officers of its members, our Coalition has reached conclusions about GSP which we are anxious to offer to you today. For this purpose, I will turn to Mr. Samuel.

In our proposals for reform of GSP, we seek only to strengthen the program—to have it fulfill the original intent of the Congress and the Administration. We agree with its purpose in assisting developing countries to participate more fully in the international trading system. Furthermore, we believe that in many cases the program has done precisely that, and has been of help to the less wealthy countries.

At the same time, we sense that GSP is not currently working as it should. Its value to the poorer countries, even to the middle-tier developing countries, is limited. It is our feeling that GSP can be restructured to bring its operations more closely in line with its goals. This is why we are here today. The Generalized System of Preferences should mean what its name implies—preferred treatment to correspond with the development needs of receiving countries, which at the same time avoids harm to our own industries. The system now appears unable to discriminate between its duty free treatment and preferential treatment with respect to the countries most needing preferred access to our market.

Finally, the representatives of the Labor-Industry Coalition for International Trade believe in certain basic principles:

1. We believe strongly in the interdependence of production and trade between nations.
2. We believe that each country's industry has certain advantages to offer others through exports.
3. We fully understand the need for less fortunate nations to access our markets through a Generalized System of Preferences if, in fact, these preferences are needed and do no basic harm to American industry.
4. We believe that the survival of our system of government depends to an important degree on the strength of its economy and this means job generators or producers as well as consumers.

MEMBERS OF LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

Labor:

Amalgamated Clothing and Textile Workers Union.
 American Flint Glass Workers Union.
 Communication Workers of America.
 Industrial Union Department, AFL-CIO.
 International Association of Machinists and Aerospace Workers.
 International Brotherhood of Electrical Workers.
 International Ladies' Garment Workers Union.
 International Union of Electrical, Radio and Machine Workers.
 United Steelworkers of America.

Industry:

Allegheny Ludlum Steel Corp.
 Aluminum Co. of America.
 Corning Glass Works.
 Eaton Corp.
 W. R. Grace & Co.
 St. Joe Minerals Corp.

Mr. SAMUEL. Mr. Chairman, my name is Howard D. Samuel and I am president of the Industrial Union Department of the AFL-CIO. As Amory Houghton, Jr., noted, I appear here today as cochairman of LICIT, the Labor-Industry Coalition for International Trade.

With the chairman's permission, I would like to submit my statement and summarize it.

I don't have to spend much time telling you what is happening to the GSP system now. You have heard from government and other witnesses and you will be hearing more.

We believe the GSP system is not operating according to its original purposes and really that is the purpose of this hearing and congressional oversight.

Our suggestions run in three directions.

First: We believe that through some process of graduation we should make sure and we can make sure that the benefits under GSP can be made available to the countries for which they are intended. That kind of graduation can be on a country basis or it can be on a sectional basis or both, but some kind of automatic graduation process I think must be incorporated to make sure that GSP functions the way it was intended to.

Second: We think it is highly important in the administration of GSP there should be greater visibility. Much of GSP today is carried out behind closed doors. I think one of the problems for the general public and those affected is they don't know the reason why actions are taken. I think by congressional mandate this should be corrected.

Finally: I think we should take a look at additional reasons for eligibility by other countries, and that is to take a look at their trade practices. Too often we find ourselves rewarding countries whose trade practices are beyond the bounds of propriety by granting them eligibility under GSP. This does not make sense. Through GSP we can assure a higher pattern of trade practices throughout the world.

That summarizes our testimony. We would be happy to answer any questions you have.

[The prepared statement follows:]

STATEMENT OF HOWARD D. SAMUEL

Mr. Chairman, my name is Howard D. Samuel, and I am President of the Industrial Union Department of the AFL-CIO. As Amory Houghton, Jr. noted,

I appear here today as Co-Chairman of LICIT, The Labor-Industry Coalition for International Trade.

We believe that GSP at present is failing to achieve its goals. It helps most the developing countries that need it least, and helps least those that need it most. Moreover, the program is not avoiding causing injury to domestic industries and workers. For these reasons, we hope this Subcommittee will review significant reform needed in the GSP program.

Let me approach, one by one, our points about GSP and our ideas about reform.

The first point is that almost all the benefits of the current GSP system are going to a few of the richest developing countries. In 1979, Taiwan, Hong Kong, and Korea accounted for 50 percent of all GSP imports, and Brazil and Mexico for another 20 percent. With these five countries taking up 70 percent of GSP imports, obviously very little remains for the 130 other beneficiary developing countries. This is clearly contrary to the stated purposes of GSP, which include having the most advanced developing countries "graduate" to assuming the greater obligations of the international trading system, so that other developing countries can improve their competitive opportunities.

To improve the developmental focus of GSP, two kinds of steps can be taken. We suggest that the Administration and this Subcommittee carefully explore ways to increase access to the U.S. market for GSP imports from the least developed countries. We also suggest that consideration be given also to how to reform GSP so as to limit undue concentration of benefits.

Two basic approaches are available for reducing benefits for highly competitive advanced developing countries; graduation can be approached on a "country" basis or on a "product-sector" basis. Graduation on a country basis would phase out GSP benefits for a beneficiary country as a whole when its export performance under GSP is among the very strongest. For example, when one country supplies more than a billion dollars in GSP imports in a year, the competitive need ceiling for its products might be lowered by some significant amount. Or, when one country supplies more than a certain percentage—say, 10 percent—of all GSP imports, its competitive need limits might be lowered. These illustrative figures highlight the kinds of approaches that might increase preferential access for the middle tier of developing countries.

A "product sector" to graduation would eliminate GSP eligibility for products in a certain sector—say, 2-digit SIC industries such as transportation equipment or electrical electronic equipment—when GSP imports from that country in that product sector reach a certain level or certain percentage of total GSP imports in that sector. This is sensible because it eliminates GSP treatment for sectors which are advanced and can meet international competition, and yet avoids the foreign policy objections which arise in eliminating a country completely from GSP eligibility, although sections of its economy are still less developed.

There are many possible variations, and we hope you will give serious attention to this question of undue concentration of GSP benefits.

Our second point is that the GSP program can and should be administered in a more open and predictable manner. Decisions about eligibility for GSP benefits should be accompanied by a full public explanation of their bases and given adequate opportunity for rebuttal. For example, in a recent case in which USTR overturned an International Trade Commission injury finding, the full explanation given was one paragraph in The Federal Register. We think that's insufficient in view of the jobs and investment so often at stake.

The credibility of the program can be enhanced by providing publicly available specific criteria and procedures which will be followed in the decision-making process. Additions and deletions from the list of GSP products should be made on publicly stated and equitable and consistent grounds.

Not only should the criteria for adding or deleting products be more open and predictable, they should provide a stronger foundation for avoiding injury to domestic producers as a result of the administration of the GSP program. We often see findings of import injury from other U.S. government agencies which are apparently ignored by USTR in their review of petitions to add or delete products on the GSP list. We think there is relevance in findings of injury by the International Trade Commission for products which are, or may become, eligible for GSP treatment. Should not such an injury finding relate to the question of "import sensitivity in the context of GSP," which is the sole statutory criterion for deletion of products from eligibility? A similar question can be

raised with regard to cases in which Trade Adjustment Assistance has been granted due to imports of the same product, under consideration by USTR.

Our third and final point is that continued eligibility for participation in the GSP program should take into account the trade practices of the country in question. In general, our decisions about a country's eligibility should take into account the openness of the beneficiary country's trade policies.

One aspect of graduation of the more advanced developing countries should be their granting equitable access not only to products from the United States, but particularly in the context of GSP, their granting equitable access to the products of other developing countries. Moreover, decision about GSP eligibility should take into account findings under U.S. trade law that a country has engaged in unfair trade practices.

We believe these steps would, taken together, bring the GSP program much closer to the goals set for it when it was established 5 years ago, and make it much more responsive to American economic conditions and trade laws. We urge you to consider them carefully, and we would be delighted to work with Committee staff on these or other proposals to reform GSP.

I agree entirely with Amory Houghton, Jr. in commending the Subcommittee for this inquiry into GSP and in thanking you for your kind attention today to the views of the Labor-Industry Coalition for International Trade.

Mr. MOORE. I have no questions at this point. I agree with the general statements both of you have made. I also want to commend you both for the formation of this coalition, which makes a lot of sense. Labor and business have very similar interests and ought to be working together. The fact that you do is very encouraging to us in government.

I thank you for your testimony and I assure you we will be taking a closer look at GSP. I have had problems with it in my own district and own State, and we have all been wondering how it is being administered. Thank you for being here.

The next group is the Ad Hoc Labor-Industry Trade Coalition, Mr. Stanley Nehmer and Mr. Donald deKieffer, and Mr. Christopher Mark.

Gentlemen, if you will all come forward, we will recess the committee for 10 minutes while I go and vote and I will come back and we will continue the hearings. I apologize for the delay.

[A recess was taken.]

Mr. MOORE. The committee will come to order.

Mr. Nehmer?

STATEMENT OF STANLEY NEHMER, AD HOC LABOR-INDUSTRY TRADE COALITION, ACCOMPANIED BY CHRISTOPHER MARK

Mr. NEHMER. Thank you, Mr. Chairman.

For the record, my name is Stanley Nehmer, president of Economic Consulting Services, Inc., of Washington, D.C. I will summarize my statement, if I may, and ask that the entire statement be put into the record.

I am appearing on behalf of the Ad Hoc Labor-Industry Trade Coalition which is composed of 33 industrial and labor organizations listed in the attachment to my statement.

I should say that on all matters which the coalition has considered, not all groups concur or have taken positions on all the points covered in this statement.

Our group has been working together for about 2 years. We were concerned initially with the international subsidies code and to its

implementation under U.S. law. We find we have a commonality of interest in several other areas of international trade legislation and policy.

Accompanying me today is Mr. Christopher Mark of my firm who, until 1 year ago, was a member of the U.S. MTN Delegation in Geneva with responsibilities for negotiations concerning the GSP and graduation issues.

At the outset, I should make it clear that our coalition supports the concept of the generalized system of preferences. We are not here to recommend it be dismantled. We strongly believe, however, that certain revisions in the GSP program are needed to check the adverse impact it has been having on American jobs and firms. There are some serious issues that need to be addressed now for the GSP program to be viable, and politically supportable, in the future.

First, with regard to the issue of graduation, it surely is not in the interest of U.S. foreign and economic policies to perpetuate a two-tier trading system, in which the majority of the world's trading nations are permanently classed as "developing countries." The global economy is, after all, a dynamic system and relative shifts in economic strengths among countries will have to be accommodated sooner or later since an increasingly elaborate set of trade arrangements like the GSP will intensify the costs of delaying an adjustment. We should consider what would have happened, for example, if the GSP system had been in effect in 1950 when Japan was a developing country. At what point during the past 30 years would it have been convenient to remove Japan from the eligibility list? What would have been the economic and political costs, domestically and internationally, of delaying such action?

Currently, a number of rapidly growing developing countries are crossing the transition line to developed status. In fact, certain advanced "developing" countries have now actually overtaken some of the member-states of the European Economic Community in terms of per capita gross national product, and others are on the verge of doing so.

When we read in the President's report that 68 percent of all GSP duty-free imports came from 5 countries, and 90 percent came from 15 countries, one would have to conclude this concentration of benefits among a relatively small number of countries cannot really be considered an indication of the success of the program.

I think attention can focus on whether at least the top five beneficiaries—Taiwan, Korea, Hong Kong, Brazil, and Mexico—have developed to the point where they have clearly established their competitive position in our market and so no longer need duty-free GSP treatment of their exports to the United States.

Continuing to accord GSP benefits to these top five countries should certainly be scrutinized carefully and probably can no longer be justified by the terms of the statute. It is hurting those lesser developed countries which legitimately can use the help of the GSP program and for which the program was intended. It is also hurting those domestic industries whose firms and workers are shouldering the burdens of according GSP duty-free treatment on products from such countries.

With regard to the issue of import-sensitive products, there is guidance in the Trade Act of 1974, section 501, in determining the import sensitivity of products. It says the President should consider "the anticipated impact of such action on U.S. producers of like or directly competitive products." GSP is intended to enable developing countries to gain access in the U.S. market they would not otherwise have had. Congress never intended that developing countries which have already successfully penetrated the U.S. market be given the added advantage of duty-free products for such products.

It is also our conclusion that the Congress, by referring to "anticipated impact," envisioned that the threat or likelihood of adverse impact on domestic producers would be taken into consideration.

The executive branch seldom deletes articles from the preference list because of import sensitivity. Many more products have been determined not to be import-sensitive and have been added to the preference list than have been dropped from the GSP program. We heard today from the administration statistics, which came from the President's report, table 2.1; if one were to update that table, we would find that since the GSP program began, 132 products have been added to the preference list while only 20 have been removed from the list. Once a product is on the GSP list, it is extremely difficult to remove it.

There have been a number of cases from time to time involving leather wearing apparel which illustrate this point. It took this industry 3 years in order to convince the executive branch, covering two administrations to remove leather wearing apparel from the GSP eligibility list. Another was the matter involving eyeglass frames, referred to by Mr. Conable; The industry has tried three times without success to secure the removal of this item from the GSP eligibility list. In both cases, GSP imports had grown substantially while domestic production was declining and jobs stagnating.

With regard to the procedural issues, in my testimony we point out several procedural questions that ought to be addressed.

First, there is the question of what I would refer to as the "gerrymandering" of the tariff schedule in order to come up with the right fit to suit a particular purpose. The practice normally is to use five-digit tariff item numbers. Indeed, in the report of the Senate Finance Committee, it was made very clear that the only exception to not using the five-digit numbers would be where it would be necessary to insure that an article is a coherent product category. However, in the case of lead, for example, there is now under review the possible addition of a seven-digit item—one part of the lead area—to the GSP list. It has also happened that the executive branch has taken an existing five-digit number and has subdivided it into five new five-digit numbers in order to avoid, presumably, the competitive-need trigger.

A second procedural issue involves the competitive-need trigger itself. The original \$25 million level in the Trade Act of 1974 has now risen to \$42 million. A very real question arises as to whether or not the annual increases should be stopped and perhaps reversed.

A third procedural deficiency exists in that there is no published evaluation or report after the completion of a GSP case, such as at least petitioners get in the cases before the International Trade Commission.

A fourth procedural problem involves what I would call "double jeopardy." Sometimes after a hearing before the Trade Policy Staff Committee, another hearing is called for by referral to the International Trade Commission. That means two sets of hearings and double expenditure of time, which can be a real burden on small firms.

Further, I must raise an important point which is not strictly procedural but is undermining the effectiveness of the subsidies code negotiated during the MTN. The principal advantage which foreign countries derive from joining that code is the requirement for an injury test in countervailing duty investigations involving signatory countries' exports to the United States. Because the 1974 Trade Act provided for an injury test in any countervailing action that involves duty-free imports, a major incentive is lacking for developing countries—to the extent their exports to the United States come in duty-free under GSP treatment—to adhere to the subsidies code. GSP treatment is neither a permanent concession nor a bound tariff obligation on the part of the United States. It should thus be a fairly straightforward matter to amend the legislation so that, for the purpose of requiring proof of injury in countervailing duty investigations, a distinction would be drawn between MFN or "statutory" duty-free treatment, and duty-free treatment which is accorded certain countries, temporarily, under the GSP program.

We conclude our testimony, Mr. Chairman, with several recommendations. With regard to the graduation issue, we recommend that foreign policy considerations be tempered by a recognition that the more advanced of the developing countries will have to be removed from eligibility under the GSP program if a greater competitive edge in exporting to the United States is to be provided the lesser developing countries. Certainly those countries enjoying trade surpluses with the United States whose per capita incomes have increased significantly since the period before GSP was initiated are likely candidates for exclusion. Countries whose GSP shipments to the United States in the aggregate account for, say, more than 10 percent of total GSP imports should likewise be declared ineligible. Any one of these, or perhaps other similar criteria, should seriously be considered as a reasonable and equitable basis for removing the more advanced countries from eligibility under the program and for restoring the broad distribution of GSP benefits among developing countries as the Congress originally intended.

We hope this subcommittee will monitor closely whether the executive branch does in fact "withdraw, suspend, or limit duty-free treatment," as the President's report says it will in the future. Specifically, in addition to the existing statutory exclusions, we recommend that the following articles should be considered import-sensitive:

First: Articles in cases where the ITC has made an affirmative determination of injury, or threat thereof.

Second: Articles which were exempted from duty cuts in the recent multilateral trade negotiations.

Both of these points were recommended in the Senate Finance Committee's report in the 1974 Trade Act.

Third: Articles directly competitive with those excluded under the statute.

Fourth: Articles the imports of which under GSP have been growing significantly since the inception of the program, taking a growing share of the domestic market while domestic production and employment have either declined or stagnated.

We suggest several changes in procedures:

One: Try to restrict the practice of arbitrary or inappropriate splitting of five-digit tariff schedule items in order to avoid triggering competitive need levels.

Two: Fix the competitive need level at, say, between \$25 to \$30 million.

Three: Require the publication of more detailed analyses and reports on the reasons for both negative and affirmative decisions on GSP petitions.

Four: Eliminate referrals of GSP petitions to the International Trade Commission.

Five: Remove the disincentive for LDC's to join the subsidies code by differentiating between "statutory" duty-free treatment and temporary duty-free treatment under GSP.

I realize some of these recommendations may be considered controversial by some, but they result from 5 years of experience with the GSP program. They would redress the balance between domestic and foreign interests, which the Congress certainly intended when it drafted title V of the Trade Act of 1974, but which has been weighted thus far in the direction of giving the benefit of the doubt to foreign interests. If the GSP program is to be publicly supportable, changes such as those which our coalition has recommended are sorely needed.

Thank you, Mr. Chairman. We would be pleased to answer any questions.

[The prepared statement follows:]

STATEMENT OF STANLEY NEHMER ON BEHALF OF THE AD HOC LABOR-INDUSTRY
TRADE COALITION

OPERATION OF THE GENERALIZED SYSTEM OF PREFERENCES

My name is Stanley Nehmer. I am President of Economic Consulting Services Inc. of Washington, D.C. I am appearing today on behalf of an ad hoc coalition of 33 industrial and labor organizations which are listed in an attachment to my prepared statement. Our group has been working together for over 2 years; while our initial concern was with the negotiation of an effective international Subsidies Code and its subsequent implementation under U.S. law, the members of our group also find a commonality of interest in other key areas of international trade legislation and policy.

We have requested an appearance today before the Trade Subcommittee to discuss the operation and administration of the Generalized System of Preferences during the five years since it was enacted in the Trade Act of 1974.

With me is Mr. Donald deKieffer, of the Washington law firm of Collier, Shannon, Rill, Edwards and Scott. Both of us have had extensive experience with regard to U.S. trade legislation and have represented a number of clients in matters concerning the various provisions of the trade statutes. Also with me is Mr. Christopher Mark, of my firm, who until last year was a member of the U.S. MTN Delegation in Geneva with responsibility for negotiations concerning the GSP and graduation issues.

My testimony today will deal with certain points raised by the President's Report on the U.S. Generalized System of Preferences, which was recently submitted to the Congress. Section 505 of the Trade Act of 1974 required that such a report be submitted by January 2, 1980. My remarks will also reflect some of the experiences member organizations of our coalition have had in dealing with the

Generalized System of Preferences. Finally, I will make some recommendations for consideration by the Executive Branch and the Congress to improve the workings of the present GSP program.

From the outset let me make it clear that our coalition supports the concept of the Generalized System of Preferences. We are not here to recommend that it be dismantled. We strongly believe, however, that certain revisions in the GSP program are needed in order to check the adverse impact it has been having on American jobs and firms. Clearly, there are some serious issues that need to be addressed now for the GSP program to be viable, and publicly supportable, in the future.

I. THE ISSUE OF GRADUATION

Considerable attention is given in the President's GSP report to the question of graduation. It has long been recognized that, as circumstances change, any special treatment made generally available to developing countries would have to be phased out for individual LDCs as they "graduate," or become more developed. This principle is the keystone around which the GSP program was originally constructed. It is a matter of concern to our coalition and, we suspect, to management and labor in any American industry concerned with the impact of the program on its economic well-being.

The Congress eliminated certain countries from coverage under the GSP program in Section 502(b) of the Trade Act of 1974. At the same time, the Congress established in Section 502(c) certain criteria for designation of beneficiary developing countries. These criteria include "the level of economic development of the country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which the [President] deems appropriate; and the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country."

Clearly, it is not in the longer-term interest of U.S. foreign and economic policies to perpetuate a "two-tier trading system" in which the majority of the world's developing nations are permanently classed as LDCs. The global economy is after all a dynamic system, and relative shifts in economic strength among countries will continue to be accommodated sooner or later—especially since an increasingly-elaborate network of special trade arrangements, like the GSP, will only intensify the process of delayed adjustment. We should consider what would have happened, for example, if the GSP system had been in place in 1950, when Japan was generally regarded as a developing country. At what point during the past 30 years would it have been "convenient" to remove Japan from the eligibility list? What would have been the economic and political costs, domestically and internationally, of taking such action? Similarly, a number of rapidly-growing developing countries are crossing the transition-line to developed status. In fact, certain advanced "developing" countries have now actually overtaken some of the member-states of the European Economic Community in terms of per capita GNP, and others are on the verge of doing so.

When one reads in the President's report that 68 percent of all GSP duty-free benefits in 1978 came from five countries and 90 percent came from 15 countries, one could have to conclude that this concentration of benefits among a relatively small number of countries cannot really be considered an indication of the "success" of the program. I think attention might well focus on whether at least the five beneficiaries—Taiwan, Korea, Hong Kong, Brazil, and Mexico—have now reached the stage of economic development where, having clearly established their competitive position in the U.S. market, they no longer need the benefits of GSP duty-free treatment of their exports to the United States.

Each of the top five countries has experienced significant increases in per capita income since the pre-GSP period. In 1978 Hong Kong enjoyed a per capita income of \$3,076, a 67 percent increase from the 1975 level. Korea's per capita income rose by 97 percent in this period, Taiwan's by 54 percent, Brazil's by 36 percent, and Mexico's by 13 percent. Moreover, Hong Kong enjoyed a trade surplus with the United States of almost \$2 billion in 1979, while Taiwan's trade surplus with the United States was in excess of \$2.6 billion. (United States-Korean trade was about in balance; only Mexico and Brazil continued to have deficits in their trade with the United States.)

Continuing to accord GSP treatment to these top five countries should certainly be scrutinized carefully and probably can no longer be justified by the terms of the statute. It is hurting those lesser developed countries which legiti-

mately can use the help of the GSP program and for which the program was intended. It is also hurting those domestic industries whose firms and workers are shouldering the burdens of according GSP duty-free treatment on products from such countries.

II. THE ISSUE OF IMPORT-SENSITIVE PRODUCTS

Perhaps one of the most controversial features of the GSP program involves the question of what is an "import-sensitive product" in the context of the GSP program. The Trade Act of 1974 and its legislative history give us some guidance as to what is meant by "import sensitive".

Section 501 of the Trade Act of 1974 provides that in according duty-free treatment for any eligible article, the President should consider "the anticipated impact of such action on United States producers of like or directly competitive products." GSP is intended to enable developing countries to gain access in the United States market they would otherwise not have. The Congress never intended that developing countries which have already successfully penetrated the U.S. market be given the added advantage of duty-free treatment for such products. Furthermore, it is our conclusion that the Congress, by referring to "anticipated impact," envisioned that the threat or likelihood of adverse impact on domestic producers would be taken into consideration.

The Senate Finance Committee, in its report on the Trade Act of 1974 (page 225), said that "sensitive articles could include those being injured as a result of dumping and those which have traditionally been reserved from trade negotiations." Section 503(c)(1) identified certain articles as import sensitive when it listed textile and apparel articles subject to textile agreements, watches, and nonrubber footwear. This designation was made with no reservation as to the need to make a further determination as to which of these articles are import sensitive, as is the case with other products listed in the same section of the statute—namely electronic, steel, and glass products. Unfortunately, the list of specific import-sensitive products does not include others that may be directly competitive with those so listed. An example would be textile and apparel products made from fibers other than those covered by international textile agreements, such as silk and vegetable fiber products. In such cases, these products may well be directly competitive with the products specifically excluded by the statute.

The Executive Branch seldom deletes articles from the preference list because of import sensitivity. Many more products have been determined not to be import sensitive and have been added to the preference list than have been dropped from the GSP program. If one were to update Table 2.1 in the President's report, one would find that since the GSP program began, 132 products have been added to the preference list while only 20 have been removed from the list. Once a product is on the GSP list it is extremely difficult to remove it.

For example, in one case involving leather wearing apparel, it took three years for the domestic industry to convince the Executive Branch to remove this item from the preference list even though import penetration was high—about 50 percent—and growing, while domestic production and employment were declining. There is also a case involving eyeglass frames, in which imports from developing countries have been growing significantly, successfully penetrating the U.S. market, while domestic production and employment have been stagnant at best. This industry has tried three times to secure the removal of this item from GSP eligibility, without success.

III. PROCEDURAL ISSUES

We believe several comments are in order on certain procedural questions with regard to the GSP program.

First, there have been instances where the Executive Branch has used the Tariff Schedules in a manner not intended by the Congress in order to produce a desired result. For example, the normal practice is to use five-digit items in the Tariff Schedules in the consideration of petitions for removal of or additions to items on the preference list. Indeed the Senate Finance Committee in its report on the 1974 Trade Act said on page 225:

"The term article would in general refer to the five-digit tariff item numbers of the Tariff Schedules of the United States. Exceptions may be made to this rule if necessary to insure that an article is a coherent product category."

The Mexican Government had petitioned to put unwrought lead (TSUS 624.03) on the preference list. This item consists of two 7-digit numbers, one for unalloyed lead and one for alloyed lead. The Executive Branch called the Mexican Government's attention to the fact that this five-digit item would not be eligible for GSP treatment because Mexican exports to the U.S. of the whole item were well above the competitive need ceiling. The Mexican request was then narrowed to the seven-digit alloyed lead item. Certainly unwrought lead is "a coherent product category," but nevertheless there is presently under review the possibility of adding lead alloys, the seven-digit item, to the preference list.

A second approach used recently was to subdivide one five-digit item into several so that the competitive need limitation would not be triggered. This was done recently with regard to TSUS item 740.10, gold necklaces and neck chains, which was subdivided into five new TSUS items corresponding to the original seven-digit items under the original five-digit item. This change was made effective March 31, 1981 since imports in 1979 of the original five-digit TSUS item were not quite large enough to be triggered by the competitive need limitation used in the 1980 review.

A second procedural issue involves the competitive need trigger itself. The original \$25 million level provided for in Section 504(c)(1) of the 1974 Trade Act is now \$42 million, by virtue of the provision tied to growth in the gross national product in relation to that of 1974. The current level is a full two-thirds higher than the original one. The time has come not only to stop this annual increase in the competitive need trigger, but perhaps even to begin to reverse the process.

Third, a procedural deficiency exists under the program in that there are no published evaluations or reports after the completion of each case. A petitioner is merely sent a letter in due course advising him briefly of the rationale for a negative conclusion reached by the interagency trade apparatus. Such letters are very sketchy and provide only the bare bones of the conclusions in the case. A full analysis and report, as in the case of the International Trade Commission's determinations, would be instructive and ought to be possible both for affirmative and for negative findings.

Fourth, many cases involve what I would call "double jeopardy" situations. Not only is a case heard by a subcommittee of the Trade Policy Staff Committee, but often a case is subsequently referred to the International Trade Commission if the first group finds it does not have sufficient information on which to make a recommendation. I call this "double jeopardy" because there are two sets of hearings with double expenditure of time, effort, and money by a petitioner. This can be a real burden to many small firms. It should be noted, moreover, that the ITC's reports in such cases are not made public since they are considered advisory in nature.

Finally, I must raise a important point about GSP which is not strictly procedural but which is undermining the effectiveness of the Subsidies Code negotiated during the MTN. The principal advantage which foreign countries derive from joining that Code is the requirement for an injury test in any countervailing duty investigations involving signatory countries' exports to the United States. However, because the Trade Act of 1974 requires an injury test in any case involving duty-free imports, a major incentive is lacking for developing countries—to the extent their exports to the U.S. come in under duty-free GSP treatment—to adhere to the Subsidies Code. GSP treatment is neither a permanent concession nor a bound tariff obligation on the part of the United States. It should thus be a fairly straightforward matter to amend the legislation so that, for the purposes of requiring proof of injury in countervailing duty investigations, a distinction is drawn between MFN or "statutory" duty-free treatment and that which is accorded certain countries, temporarily, under the GSP program.

IV. RECOMMENDATIONS

I believe our recommendations for revisions in the GSP program follow from the preceding analysis.

On the issue of graduation, we recommend that foreign policy considerations be tempered by a recognition that the more advanced of the developing countries will have to be removed from eligibility under the GSP program if a greater competitive edge in exporting to the U.S. is to be provided the lesser developing countries. Certainly those countries enjoying trade surpluses with the U.S. whose per

capita incomes have increased significantly since the period before GSP was initiated are likely candidates for exclusion. Countries whose GSP shipments to the U.S. in the aggregate account for, say, more than 10 percent of total GSP imports should likewise be declared ineligible. Any one of these or perhaps other similar criteria should seriously be considered as a reasonable and equitable basis for removing the more advanced countries from eligibility under the program, and for restoring the broad distribution of GSP benefits among developing countries as the Congress originally intended.

On the issue of import-sensitive products, we recommend that this Subcommittee monitor closely whether the Executive Branch does in fact "withdraw, suspend, or limit duty-free treatment," as the President's report says it will in the future. Specifically, in addition to the existing statutory exclusions, we recommend that the following articles should be considered import sensitive:

1. Articles in cases where the ITC has made an affirmative determination of injury, or threat thereof, notwithstanding the eventual disposition of the cases. This would include antidumping and countervailing duty cases;

2. Articles which were exempted from duty cuts in the recent Multilateral Trade Negotiations. Both this and the preceding group were suggested for exclusion from the GSP program in the Senate Finance Committee's report on the 1974 Trade Act, to which I referred earlier;

3. Articles directly competitive with those excluded under the statute; and
4. Articles the imports of which under GSP have been growing significantly since the inception of the program, taking a growing share of the domestic market while domestic production and employment have either declined or stagnated.

On the issue of procedures, we suggest several changes in present procedures, as follows:

1. Restrict the practice of arbitrary or inappropriate splitting of five-digit Tariff Schedule items in order to avoid triggering competitive-need levels;

2. Fix the competitive need level at \$25 to \$30 million;

3. Require the publication of more detailed analyses and reports on the reasons for both negative and affirmative decisions;

4. Eliminate referrals of GSP petitions to the ITC; and

5. Remove the disincentive for LDCs to join the Subsidies Code by differentiating between "statutory" duty-free treatment and temporary duty-free treatment under GSP, for the purposes of requiring proof of injury in countervailing duty investigations.

I recognize that many of these recommendations may be considered controversial by some. They represent, however, the result of five years of experience with the GSP program. They would redress the balance between domestic and foreign interests, which the Congress certainly intended when it drafted Title V of the Trade Act of 1974, but which has been weighted thus far in the direction of giving the benefit of the doubt to foreign interests. If the GSP program is to be publicly supportable, changes such as those which our coalition has recommended are sorely needed.

ATTACHMENT

THE AD HOC LABOR-INDUSTRY TRADE COALITION

Amalgamated Clothing & Textile Workers Union, AFL-CIO.
American Apparel Manufacturers Association.
American Federation of Fishermen.
American Footwear Industries Association.
American Pipe Fittings Association.
American Textile Manufacturers Institute.
American Yarn Spinners Association.
Bicycle Manufacturers Association.
Cast Iron Soil Pipe Institute.
Clothing Manufacturers Association.
Copper and Brass Fabricators Council, Inc.
Industrial Union Department, AFL-CIO.
International Ladies Garment Workers Union, AFL-CIO.
International Leather Goods, Plastics & Novelty Workers Union, AFL-CIO.
Lead-Zinc Producers Committee.
Luggage & Leather Goods Manufacturers of America, Inc.

Man-Made Fiber Producers Association.
 Metal Cookware Manufacturers Association.
 National Association of Chain Manufacturers.
 National Association of Hosiery Manufacturers.
 National Cotton Council.
 National Handbag Association.
 National Knitted Outerwear Association.
 National Knitwear Association.
 National Outerwear & Sportswear Association.
 Northern Textile Association.
 Scale Manufacturers Association, Inc.
 Synthetic Organic Chemical Manufacturers Association.
 Tanners Council of America, Inc.
 Textile Distributors Association.
 United Food and Commercial Workers International Union, AFL-CIO.
 Valve Manufacturers Association.
 Work Gloves Manufacturers Association.

Mr. MOORE. Mr. Mark, do you have any additional comments?

Mr. MARK. No, sir, I don't.

Mr. MOORE. I have two questions. Maybe you are the appropriate one to answer both. It has occurred to me that GSP has been used more as an item of foreign relations than it has of trade development. Do you have an opinion on that?

Mr. NEHMER. I would say that has certainly been the case. I cited the example of leather wearing apparel, in which three efforts were made over 3 years to get it off the GSP list. The major supplying countries included countries such as Mexico, Brazil, and Uruguay, and our foreign relations with them played an important part in putting this item on the list in the first place. Even though the Interagency Committee had recommended against it because imports were already high, the matter was appealed and decided for foreign policy reasons, yes, very clearly.

Mr. MOORE. In the multilateral trade negotiations, Japan was mentioned as being an example of one looked at, and I certainly agree with that. Did we negotiate with Japan and keep them on the general preference list for something we got at MFN?

Mr. MARK. I think perhaps we may have been unclear in making the comparison. Japan has never received GSP treatment. The analogy here or the hypothesis was, if GSP had been in place back when everyone considered Japan to be an LDC, what would have happened? I think you can look over the past 30-year period and say that, if that were so, at any given point there always would have been some policy consideration that would have prevented us from withdrawing GSP from Japan—either a mutual defense treaty or various economic or other issues that would have been complicated by such action on our part. Therefore, if it is true that foreign-relations considerations are predominant in this area, it may then be practically impossible to remove any country from GSP treatment, even long after it ceases to warrant it. I would say that the importance of establishing a precedent now—for beginning to modify the country coverage of GSP—is really quite crucial, because the longer it is delayed the more severe will be the problems, including foreign policy problems, in making those adjustments in the future.

Mr. NEHMER. There has to be some biting of the bullets at this point.

Mr. MOORE. Thank you very much for your testimony, gentlemen.
The next witness will be Mr. Ted Rowland of the American Importers Association.

**STATEMENT OF TED ROWLAND, STAFF ECONOMIST AND DIRECTOR
OF RESEARCH AND PUBLICATIONS, AMERICAN IMPORTERS ASSO-
CIATION**

Mr. ROWLAND. Thank you, Mr. Chairman.

My name is Ted Rowland. I am staff economist and director of research and publications of the American Importers Association.

The association is a nonprofit national organization formed in 1921 to represent the common interests of the importing business in the United States. Our membership, more than 1,300 U.S. corporations and firms, represents every facet of the business and trade between the United States and every other trading nation.

As an organization, AIA supports the concept of GSP as beneficial to trade but takes no official position for or against the program. Many of our members enjoy its commercial benefits, and many have made investments in, or long-term commercial agreements with, trade partners in developing countries, thus helping to fulfill the basic purpose of the program. Others among our members, on the other hand—for example, commercial partners or representatives of producers in developed countries—have been placed at a competitive disadvantage by GSP. Our comments, therefore, the relatively narrowly and procedurally focused.

I would like in this summary statement to deal with five aspects of the program.

First, with regard to day-to-day functioning, GSP, under Customs and STR administration, has been remarkably smooth running and supportive of the goals of the program. I have to say that it is unusual for us to be able to say this about any program.

Congress in the Trade Agreements Act of 1979 made a few changes in GSP. Two of these we believe require further modification.

First, the effective date for annual changes was extended for 30 days because of previous complaint by both government and industry that the previous 60 days was inadequate, in the event the additional 30 days provided some relief for the Government but none for traders. The Executive order making changes in GSP this year—and there were hundreds of changes of every kind—was published in the Federal Register of Friday, March 28, effective Sunday, March 30. We urge again that the effective date be set not less than 150 days after the calendar year, with a requirement that the Executive order be issued not later than 90 days after the calendar yearend.

A second change which we find laudable but still not of optimum effect is the newly established million-dollar exemption from imposition of dutiable items from those beneficiary countries which account for 50 percent or more of total U.S. imports of that item.

The previous rule worked a hardship, on many unique items, of small total trade. Congress new exemption removes this problem for 75 to 80 percent of the cases. A \$2 million or more exemption would avoid the

complaint in almost all cases. Since we are dealing with essentially noncompetitive items, we believe this would not be controversial.

Third, we urge again or still that the Government establish a single center where all information, instruction, and copies of pertinent regulatory and guideline materials would be available to traders and governments. GSP has been of important benefit to the smallest, poorest developing countries. Whatever may be said about specific countries or products and however small the percentage figures may be in the great numbers game which our economy represents, the dollar and commercial opportunities made available to and taken by more than 100 very poor countries have been important to those countries and to their manufacturers, workers, and business people, and those dollars are flowing directly and immediately into their economies.

Underutilization of the program by these poor countries is mainly the result of a lack of promotion and readily available information, both of which we hope would be overcome to an important degree by the existence of a U.S. Government center.

In regard to the main issue raised by the President's report, that of graduation, we would support a product approach rather than a country one, a view consonant with the purpose of the program in helping the development of new industry. In any case, for functional and economic reasons, we would hope for long lead times.

Lastly, I would like to express a major concern with operation of the program, which is the continuing lack of essential statistical data in usable format, in easily available form, and within a meaningful period of time.

A major goal of all those engaged in trade is to avoid as much as possible, or at least to minimize, uncertainty and risk. Importers in the United States typically must commit to purchase contracts from 4 to 6 or more months in advance of shipment and frequently have goods sold at firm prices long before they arrive. For the beneficiary producer, potential dutiability is of crucial importance in planning production, purchasing materials, and in budgeting.

As much help in discerning possible dutiability of GSP-eligible products, as early as possible, is therefore important.

Statistics, however, are issued in a format requiring extensive manipulation before they can be used. They are issued to the public on microfiche, microfilm, and computer tape, not forms which most U.S. companies are able to use easily, much less any user in a beneficiary country. These are statistics of all trade and not just GSP trade. The Government has issued, typically, only two statistical GSP-specific lists each year. These are later than they need be. We hope the Congress will require publication of GSP data on a more timely basis.

Thank you for the opportunity to testify and I will be glad to answer any questions.

[The prepared statement follows:]

STATEMENT OF TED ROWLAND, STAFF ECONOMIST, AMERICAN
IMPORTERS ASSOCIATION

Mr. Chairman and Members of the Committee, my name is Ted Rowland. I am Staff Economist and Director of Research and Publications of the American Importers Association (AIA).

The American Importers Association, is a non-profit organization formed in 1921 to represent the common interests of the importing business in the United States. As the only association of national scope representing American companies engaged in the import trade, AIA is the recognized spokesman for importers throughout the nation. Our membership—more than 1,300 U.S. corporations and firms—represents every facet of the business, and trade between the United States and every other trading nation.

AIA, as an organization, supports the concept of GSP as beneficial to trade, but takes no official position for or against the program. Many of our members enjoy its commercial benefits, and many have made investments in or long-term commercial agreements with partners in developing countries, thus helping to fulfill the basic purpose of the program. Others among our members, on the other hand—for example partners or representatives of producers in developed countries—have been placed at a competitive disadvantage by GSP.

The role which our Association has played regarding GSP has been mainly informational and functional. We attempt to keep interested members informed, and we work with the government agencies to see that the program functions as efficiently as possible. It is from these two vantage points—information and function—that we testify today.

Our testimony focuses first on AIA's perceptions regarding the program's administration particularly as to three specific areas: (1) How the program is functioning from a commercial point of view, including the activities of Customs, STR and the TPSC; (2) What effects the amendments in the Trade Agreements Act of 1979 will have; and, (3) certain problems of information, focusing on the lack of a consolidated governmental information source, the lack of timely and useful statistical information and the resulting underutilization of the program. We then will make several comments on the President's Report.

I. THE ADMINISTRATION OF GSP

A. The Government's Approach to GSP

The United States GSP program is working very well—remarkably well, considering its complexity and the number of government agencies with GSP responsibility. The Customs Service, in particular, has been very responsive to the goals of GSP. Customs has enforced the law reasonably, has helped exports and importers to understand and to comply with the U.S. program and has been flexible when regulations have proved to be unreasonable. Headquarters generally responds quickly when GSP problems arise, and the people assigned to GSP responsibilities have been committed to the program's success. Administration has been relatively uniform, and, to our knowledge, usually fair. Customs has made an extra effort to inform foreign exporters and U.S. importers and customs brokers about the program and has been extremely helpful in making the program work. Similarly, the U.S. Trade Representative's Office has been responsive and helpful. Access has been made easy for those involved in the program. The Trade Policy Staff Committee, too, has maintained a fair and open stance in establishment of petition procedures and, we feel, has administered the program intelligently and even-handedly. In short, we have no critical problems to bring before you regarding the day-to-day functioning of GSP. We must say that we find that remarkable.

B. Trade Agreements Act Amendments to GSP

In regard to the recent amendments to GSP in the Trade Agreements Act (section 1106(g) and 1111) however, we feel that two changes were unnecessarily inadequate.

First, the extension of the effective date for annual program changes from 60 to 90 days after the close of the statistical year achieves some relief from the serious problem of adjustment but apparently only for the administration. The House Report to the 1979 amendments stated quite correctly that the 60 day period allowed "insufficient time to process import statistics when they become available after the close of the calendar year and to provide adequate notice of changes in the coverage of the program to exporters and importers." (H. Rep. No. 96-317 at 193) This year the government itself used 29 of the 30-day extension to process the statistics and the President's Executive Order appeared in the Federal Register on March 28 with a March 30 effective date. We do not deny the government's need for more time, but the 30-day extension failed to provide

the users of the program any relief from the uncertainty arising out of this situation. In terms of commercial realities importers need 2-3 months warning of these extensive annual changes. (According to the President's Report, competitive need exclusions amounted to \$3.2 billion or about one-third of imports of GSP eligible articles from beneficiaries. Report of the President on the U.S. Generalized System of Preferences, at 67-68). We believe that all parties could be best accommodated by a statutory effective date of at least 150 days with publication of the Executive Order within 90 days.

Second, the Trade Agreements Act exempted from the operation of the 50 percent competitive need rule, products for which total importations did not exceed \$1 million (to be indexed to changes in the GNP). This amendment will eliminate many unnecessary product exclusions, but a \$2 million minimum would remove virtually all of the inequitable applications of the rule to unique, and essentially noncompetitive goods. The President's Report states that foreign governments directed overwhelming criticism at the 50 percent rule and urged a floor of \$3-10 million. While there is some dispute over the precise number, clearly the \$1 million floor is inadequate. Because this exemption addresses only noncompetitive items, and relatively small amount of trade, we believe such a change would be noncontroversial.

C. User access to program information and statistics

Our third major point—the lack of ready access to GSP information and statistics for program users—finds us more critical. We feel that the lack of a single knowledgeable, responsive GSP center in the government limits use of the program and that the consistent untimeliness of critical information creates needless confusion and expense. A foreign exporter or a U.S. importer who needs information about GSP or needs to resolve a problem might have to deal with State, Customs, STR, TPSC, ITC, and/or Census. UNCTAD, OAS (the Organization of American States) and our Association have all published, and periodically update, handbooks to help understand and use the U.S. GSP program—but the United States government has made no such document available. This failure to provide one central place where interested businessmen and travelers can go to find out about the program, to learn how to use it, and to be able to keep current with the numerous changes not only limits the usefulness and effectiveness of the program but is, we believe, a major reason why the program is not more extensively used. Underutilization of GSP may be due to several causes, but the lack of adequate information has to be a primary reason. While the President's Report announces that a GSP Information center will be established, its mission appears to be limited to assisting those who wish to petition for the addition or removal of items from GSP eligibility. We hope the Center would be expanded to cover all aspects of GSP.

More serious to those using the program, however, is the paucity and untimeliness of statistical information. This nagging problem has been with us since the program began, and its existence is difficult to understand. Importers and exporters are most affected in their business by uncertainty and risk which, of course, cannot be avoided altogether. There is no reason why the use of GSP should add uncertainty and risk solely by making it difficult to get GSP-relevant statistical information throughout the GSP year in a timely, useful way. The necessary Census Bureau statistics appear far too late to be of use and are released to the general public only on microfiche, microfilm, or computer tape—all of which are unusable to the vast majority of GSP users. Commerce has only just published the 1978 year end totals in a printed form. Monthly figures (which appear in the Census publication IM-146) are organized on a seven-digit basis and are not cumulated into five digit totals—the only basis for GSP evaluation. Someone wanting to see if a product exceeds the 50% rule as of July, for instance, would have to add the two or three country totals in each seven-digit category (and there could easily be eight or ten of them, and sometimes twenty), then add the subtotals for both country and world and then make the comparison. This can be a chore for one item; for hundreds of items it is a major project. If the statistics appear only on microfilm or microfiche it only compounds the problem. Even the official publication of the list of eligible products did not take place until August. Each month, beginning with June statistics, our association publishes a list of those items that seem likely to exceed the dollar maximum for the 50 percent rules. While this list, at least, gives some guidance to importers and exporters, it is not official; and the U.S. government publishes such a list

only twice a year—once based on October figures and the second based on year-end. These lists are of some use, but they are released far too late to be of real service. Quite simply the government should publish an "early warning" five-digit GSP-items-list every month beginning at mid-year. The multi-billion dollar GSP program needs and deserves better statistical support.

II. THE REPORT OF THE PRESIDENT

From our experience, we find the President's Report on the first five years of GSP's operations in most respects to be accurate and objective. We would comment in only two areas: (1) The uncertainties for traders built into the statute and regulations; and (2) "graduation" and the LDDC's.

A. GSP restrictions generating commercial uncertainty

Inherent in GSP is a conflict between its goal of encouraging long term effects in less developed countries and the program's restricted lifetime. According to the President's Report all foreign commentators cited the "unbound nature and limited duration of GSP as negative factors. They urged assurances of a program continuing beyond 1985 to facilitate planning decisions and to bring forth needed investment." (at 33) Further the report notes that while it is "too early to discern a cause and effect relationship between GSP preferences and investment decisions. Lead times for major capital outlays are considerable and most investments now on stream involved decisions that pre-dated the establishment of GSP." (at 35) The Report continues to note that "Most of the GSP-generated investment and employment increases cited by responding countries resulted from decisions to expand already existing production capacity, rather than to invest in new sectors." (at 35-36).

The business decisions which GSP was intended to encourage—those to establish or significantly expand fledgling industries—are not encouraged by tariff preferences which may disappear about the time a new plant is fully operative. The closer we get to the end of the 10-year GSP term, the more inhibiting this restriction will be. While AIA has no official position on this extension of GSP, the logic of the program would seem to recommend that Congress now consider an extension.

A second element of GSP which creates uncertainty and risk for GSP users as they include GSP in both long- and short-term planning is the so-called "ping-pong" or "on-again, off-again" effect of the competitive need rules. Where there are only two or three nations supplying a product, this rule guarantees that first one country and then the other in alternate years will lose duty-free status. As a result, some traders plan on abandoning their supplier in the first country and establishing a new source in the second or even a third in succeeding years. The effect is not consonant with the intent to establish permanent industrial development. One country suggested reducing the frequency of competitive need exclusion (President's Report at 37-38). Less radical would be to automatically redesignate a country as eligible for GSP in that product once it has fallen below the competitive need limitation, e.g., for the year following its year of ineligibility. One proposal has been made to eliminate permanently a country's eligibility for a specific product once it exceeds the dollar limit. This proposal would be consonant with the intent of GSP only if it were tied to a significant increase in the competitive need limits. This is a difficult problem.

B. "Graduation"

AIA recognizes the philosophy behind a system of "graduation" within GSP. Comprehensive graduation of a beneficiary developing country out of GSP seems to be contrary to the purposes of the program, however, by removing a major incentive for a country which may be highly developed in only a few industry sectors to expand its development into other sectors. The approach contained in the President's Report takes this consideration into account (at 68-69). At the same time the President intends to make a "special effort" to broaden the list of eligible products exported from the less developed developing beneficiary countries. This approach more precisely focuses the concepts both of graduation and of the GSP. AIA would add only the items and their exporting countries being considered for graduation should be published in the Federal Register with an opportunity for public comment.

Finally, if this approach is not accepted and graduation is applied to all GSP eligible products of any country, AIA asks that the country's eligibility be

phased out over a two or three year period. A shorter time would penalize and hurt precisely those who have participated in and relied on the program the most—surely an unfortunate prospect.

AIA appreciates this opportunity to testify on the operation of GSP, and I would be pleased to answer any questions the Committee may have.

Mr. MOORE. Mr. Frenzel.

Mr. FRENZEL. No questions.

Mr. MOORE. Thank you very much for your testimony.

The subcommittee will now recess for 5 minutes, to reconvene in room 210 of this building.

[A recess was taken.]

Mr. FRENZEL. The subcommittee will come to order.

The subcommittee will hear from Mr. Kaplan, of Washington, D.C., for 5 minutes. Then the subcommittee will adjourn briefly for a vote.

If there are questions, we will question Mr. Kaplan after the vote. Would you proceed, please? Your written statement will be accepted for the record. You may excerpt or recap or make whatever presentation you desire.

STATEMENT OF JULIUS KAPLAN, WASHINGTON, D.C.

Mr. KAPLAN. Thank you.

My name is Julius Kaplan. I am a partner in the law firm of Kaplan, Russin and Vecchi. In addition to three offices in the United States, Kaplan, Russin, and Vecchi has offices in five foreign countries, four of which are beneficiary developing countries under the generalized system of preferences.

I appreciate the committee's affording me the opportunity to present my views on the GSP. Since the GSP came into effect, my firm has been involved as counsel in annual product reviews covering well over 50 different products. This involvement has included petitioning for new products to be added to the GSP, requesting subdivision of tariff schedule numbers, and opposing withdrawal of products already on the list of eligible articles. Our efforts in regard to the GSP have consistently been on behalf of importing and foreign interests.

I want, however, to make it clear that I am appearing here today on my own behalf. My comments are not being made on behalf of any particular client, either past, present, or future, either foreign or domestic.

In my opinion, the GSP is working extremely well. The purpose of the GSP is, of course, to allow lesser developed countries to diversify and increase exports, to establish markets in the United States, and to lessen dependence on foreign aid. My experience is that foreign beneficiary developing countries are achieving these objectives, in large measure through the benefits afforded under the GSP program.

One of the main reasons why the GSP program is working well is because it has been efficiently administered by the STR's office. I have not always seen eye to eye with people at the STR's office. However, I have seldom encountered a more fair, objective, and hard-working group.

While I believe the GSP is working well, I still believe there is room for improvement. Therefore, let me turn to some suggestions which, if implemented, may make the GSP even more effective.

First: I believe the President's authority to waive the competitive-need limitation should be broadened. That authority now exists; however, the original Senate Finance Committee report indicates that perhaps only the Philippines could meet the test. Situations arise from time to time where the objectives of the program could be thwarted by virtue of the President's lack of authority to grant waivers on a case-by-case basis.

The automatic loss of GSP because of the mechanical operation of the competitive-need limitation requirement could have severe and, indeed, unfair repercussions to an industry. For example, an industry utilizing large amounts of silver in its products could, in 1979, have found itself having exceeded the competitive-need limit only because one of its major inputs was priced at a speculatively high level. It may still be an infant industry in need of GSP benefits; however, since the competitive-need limits operate automatically, it will be cut out, even though the speculative "bubble" in silver burst in early 1980. Accordingly, there should not be a mechanical rule that would require the President to deny such an industry the benefits of GSP. To remedy this situation, I recommend that the President be given discretion, on a case-by-case basis, to waive the competitive-need limitation. I urge that this be given careful and positive consideration by Congress.

Second: I think that it would be very useful if the concept of "import-sensitive" were given greater specificity and guidelines. Right now, the criteria used in determining "import-sensitive" is not totally clear, though I note these criteria are mentioned in the report of the USTR at page 21.

Third: I believe that it would be useful if the deliberation process were carried out "in the sunshine" to a greater extent, particularly as regards the reports from the U.S. International Trade Commission. When a request is referred to the ITC for a determination of the potential impact of placing the article on the GSP, the Commission holds hearings and then issues a report. This report is confidential. This means that interested parties have no chance to comment on the ITC's findings or to provide supplemental information.

Fourth: It is recognized the Congress has instructed the President that developing countries should be graduated out of beneficiary country status when they no longer require GSP benefits or status. I would strongly recommend against any such approach. There are other economic, and perhaps political factors which may argue that a beneficiary developing country maintain GSP status even if its per capita GNP were higher than other LDC's.

I agree with the view that the United States should not unilaterally initiate a graduation policy. An international consensus on such an important step is, in my view, essential. The United States should work closely on this issue with its developing and developed partners in the GATT, OECD, and UNCTAD.

In summary, Mr. Chairman, let me say as a practitioner in the field of international trade who has observed this program in action since its very inception, it is my firm belief that the GSP program was well conceived and is being well administered by the USTR. Its underlying objective of increasing the wealth of developing countries through trade is being achieved. The United States should be proud of this achievement.

Thank you. I should be pleased to answer any questions.
[The prepared statement follows:]

STATEMENT OF JULIUS KAPLAN, WASHINGTON, D.C.

Mr. Chairman and Members of the Committee. My name is Julius Kaplan. I am a partner in the law firm of Kaplan, Russin & Vecchi. In addition to three offices in the United States, Kaplan, Russin & Vecchi has offices in five foreign countries, four of which are beneficiary developing countries under the General System of Preferences.

I appreciate the Committee's affording me the opportunity to present my views on the GSP. Since the GSP came into effect, my firm has been involved as counsel in annual product reviews covering well over fifty different products. This involvement has included petitioning for new products to be added to the GSP, requesting subdivision of tariff schedule numbers, and opposing withdrawal of products already on the list of eligible articles. Our efforts in regard to the GSP have consistently been on behalf of importing and foreign interests.

I wish, however, to make it clear that I am appearing here today on my own behalf. My comments are not being made on behalf of any particular client, either past, present, or future, either foreign or domestic.

In my opinion, the GSP is working extremely well. The purpose of the GSP is, of course, to allow lesser developed countries to diversify and increase exports, to establish markets in the United States, and to lessen dependence on foreign markets.

My experience is that foreign beneficiary developing countries are achieving their objectives, in large measure through the benefits afforded under the GSP program.

One of the main reasons why the GSP is working well is because it has been efficiently administered by the USTR's office. I have not always seen eye-to-eye with the people at the USTR's office; however, I have seldom encountered a more efficient, objective, and hard-working group. There are very few government offices where you can call at 7:00 at night and expect to get an answer to your questions. The USTR GSP office is one of them.

While I believe the GSP is working well, I still believe that there is room for improvement. Therefore, let me turn to some suggestions which, if implemented, would make the GSP even more effective.

First, I believe the President's authority to waive the competitive-need limitation should be broadened. That authority now exists; however, the original Senate Finance Committee report indicates that perhaps only the Philippines could pass the test. Situations arise from time to time where the objectives of the program could be thwarted by virtue of the President's lack of authority to grant waivers on a case-by-case basis. The automatic loss of GSP because of the mechanical operation of the competitive-need limitation requirement could have severe and indeed unfair repercussions to an industry. For example, an industry utilizing large amounts of silver in its products, could, in 1979, have found itself having exceeded the competitive-need limit only because one of its major inputs was priced at a speculatively high level.

It may still be an infant industry in need of GSP benefits; however, since the competitive-need limits operates automatically, it will be cut out, even though the speculative "bubble" in silver burst in early 1980. Accordingly, there should not be a mechanical rule that would require the President to deny such an industry the benefits of GSP. To remedy this situation, I recommend that the President be given discretion, on a case-by-case basis, to waive the competitive-need limitation. I urge that this be given careful and positive consideration by Congress. Second, the law is replete with references to "import sensitive" articles and to the President's authority to determine that an article is "import sensitive". Although the term "import sensitive" is not defined in the law, the USTR has applied relevant factors in evaluating this criterion. I note that these factors are mentioned in the Report at page 21. I think it would be useful if these factors were incorporated in guidelines for both applicants and for those opposing. In the absence of guidelines there would appear to be a tendency for those opposing application to rely indiscriminately and unfairly on this criterion.

Third, I believe that it would be useful if the deliberation process were carried out "in the sunshine" to a greater extent, particularly as regards the reports from the United States International Trade Commission. When a request is referred to the ITC for a determination of the potential impact of placing the article on the GSP, the Commission holds hearings and then issues a report. That report is confidential. This means that interested parties have no chance

to comment on the ITC's findings or to provide supplemental information. This is not helpful to any of the parties concerned. Moreover, in the eyes of foreign interests, it could give the appearance that the process is a political one, rather than one based on the economic data. This could be rectified by making the ITC and similar reports public.

Fourth, it is recognized that Congress has instructed the President that developing countries should be graduated out of beneficiary country status when they no longer require GSP benefits. I perceive that there may be some who would suggest that graduation be based on some mechanical formula, such as the per capita GNP of the country. I would strongly recommend against any such approach. Other economic (and perhaps political) factors may argue that a beneficiary developing country maintain GSP status even if its per capita GNP were higher than other LDC's. Among the many other considerations which appear to be appropriate are the balance of trade of the country, its balance of payments, its special needs for earning foreign exchange, its defense needs, and the strategic and political importance of the country to the United States. Under any circumstances, extreme caution should be exercised before handing a "diploma" to a developing country.

I agree with the view that the United States should not unilaterally initiate a graduation policy. An international consensus on such an important step, is, in my view, essential. The U.S. should continue to work closely on this issue with both its developed and developing country trading partners in the GATT, the OECD and UNCTAD.

In summary, Mr. Chairman, let me say that as a practitioner in the field of international trade who has observed this program in action since its very inception, it is my firm belief that the GSP program was well conceived and is being well administered by the USTR. It is a successful program. Its underlying objective of increasing the wealth of developing countries through trade is being achieved. The U.S. should be proud of this achievement.

Thank you.

Mr. FRENZEL. Thank you, Mr. Kaplan. You have indicated in your testimony you would like to see decisions by the International Trade Commission made in the sunshine. Would you like to elaborate on that recommendation?

Mr. KAPLAN. Yes, I would.

When a request is referred to the ITC for its determination of the potential impact of placing the article on GSP, the Commission holds hearings and then issues a report. That report is confidential. This means that interested parties have no chance to comment on the ITC's findings or to provide supplemental information. This is not helpful, in my judgment, to any of the parties concerned.

Moreover, in the eyes of foreign interests, it could give the appearance that the process is a political one, rather than one based on economic data. This could be rectified by making the ITC and similar reports public, and that is what I meant by putting it "in the sunshine."

Mr. FRENZEL. Thank you very much, and thank you all for your testimony. You are excused.

The subcommittee will recess for about 10 minutes, and the first witness at that time will be the United States-Mexico Chamber of Commerce, Mr. Gerard J. Van Heuven.

[A recess was taken.]

Mr. FRENZEL. The subcommittee will come to order. Mr. Van Heuven?

**STATEMENT OF GERARD J. VAN HEUVEN, EXECUTIVE VICE
PRESIDENT, UNITED STATES-MEXICO CHAMBER OF COMMERCE**

Mr. VAN HEUVEN. Thank you, Mr. Chairman.

Mr. FRENZEL. Your statement may be made a part of the record, and you may proceed for 5 minutes.

R. VAN HEUVEN. My name is Gerard J. Van Heuven, and I am here in representation of the United States-Mexico Chamber of Commerce, a national, nonprofit organization composed of United States and Mexican member companies. The chamber represents most of the larger companies doing business in Mexico, as well as over 170,000 Mexican companies, many of which are engaged in trade with the United States and participate in the U.S. GSP program. I appear before you today mainly in representation of the Mexican membership of this chamber.

As we are all aware, the Trade Act of 1974 provided for a general system of preferences, GSP, to permit developing countries such as Mexico to be exempt from U.S. import duties on a broad range of products.

Let me say at the outset that the USMCOC supports the continuation of the GSP program, believing that it has been effective, assisting in Mexico's economic development. We believe it has been administered and run effectively by the USTR.

GSP has been one of the most significant developments in United States-Mexico trade because it has the potential of helping Mexico develop and expand its economy, thus providing the country's much-needed employment. Through tariff concessions, the GSP has given incentives to Mexican infant industries which otherwise would not have been established.

GSP has also played an important role for U.S. companies selling in Mexico. For instance, in 1977, Mexico imported 17.6 million dollars' worth of railcar components from the United States. In 1978, the figure was approximately \$33 million. These components were used in the assembly of Mexican gondolas and boxcars sold to the United States under GSP. Then Mexico went over the 50 percent limitation which was assessed an 18-percent duty. The net result was a loss of revenue for both Mexican and United States business interests.

Since 1976, Mexico has occupied fourth place as one of the major beneficiaries of GSP—except in 1978, when Brazil stepped into that position for a year—ranked behind Taiwan, Hong Kong and Korea. Despite accusations that Mexico continues to reap more benefits of GSP each year, we find in considering Mexico's volume of trade with the United States that Mexico's utilization of GSP has remained fairly consistent. You will note in table C that in 1976 only 24 percent of the products Mexico submitted for GSP entered free of duty; in 1977 it was 30 percent; in 1978, 29 percent; and in 1979, 28 percent. Thus we have that only about a fourth of Mexico's total exports submitted for GSP actually receive benefits.

On the other hand, Mexico's benefits from GSP have increased in dollar figures from \$253 million in 1976 to \$546 million in 1979, an increase of approximately 115 percent in dollars. Though this figure may seem impressive, the increase actually represents only about 7 percent of all Mexican exports to the United States. The actual increase in the number of products receiving GSP was from 927 in 1976 to 1,256 in 1979.

Utilization of GSP has not been without its problems for Mexico. Upon application of the competitive need provision, Mexico lost 25 million dollars' worth of potential GSP benefits in 1976. By 1979, 834

million dollars' worth of products were excluded due to this same provision, as shown in table B.

Since Mexico began to take full advantage of GSP benefits, we find that 26 specific products have been excluded every year from receiving benefits, due to the competitive need provision. These 26 products alone represent approximately 90 percent of total losses due to the 50 percent competitive need provision every year—specifically, \$389 million in 1976, \$473 million in 1977, \$583 million in 1978, and \$692 million in 1979, as shown in table D.

The USMCOC wishes to commend the administration for insertion of the de minimis clause in the GSP, which permits certain GSP products to exceed the 50-percent limit by \$1 million. Because of the de minimis clause, Mexico will be able to export an additional 41 products this year that otherwise would have been excluded. The dollar volume of these goods in 1979 was \$3 million.

Mr. Chairman, before I conclude my statement, I would like to refer to an earlier statement made to GSP being used as a tool to better our foreign relations, as opposed to assisting in the economic development of the countries which receive it.

On behalf of the USMCOC members I represent, I assure this committee that in the case of Mexico, GSP has been used to encourage the economic development and if the committee would like, I can submit information on a number of industries—meter parts, glass, chimney bricks, et cetera—that have developed since the introduction of GSP.

I want to thank the committee for giving the United States-Mexico Chamber of Commerce an opportunity to present its views. I will be pleased to answer any questions.

[Tables attached to the prepared statement follow:]

TABLE A.—UNITED STATES/GSP PRINCIPAL BENEFICIARY COUNTRIES (1976-79)

[In millions of dollars]

	1976	1977	1978	1979
Taiwan.....	728	911	1,433	1,721
Hong Kong.....	347	531	647	629
Korea.....	327	485	537	750
Mexico.....	253	368	458	545
Brazil.....	215	344	468	545

TABLE B.—MEXICAN EXPORTS UNDER UNITED STATES GSP (1976-79)

[Dollar amounts in millions]

	1976		1977		1978		1979	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Mexican exports to the United States.....	\$3,553	100	\$4,643	100	\$6,049	100	\$8,813	100
Eligible under GSP.....	1,038	29	1,244	27	1,576	26	1,927	22
Free under GSP.....	253	7	368	8	458	8	546	6
Excluded by competitive need.....	425	12	501	11	640	12	834	9
Dutiable for other reasons (35 percent value added, etc.).....	361	10	375	8	478	8	548	6

Eligible
Free
Excluded
Dutiable

TOTAL

135.9
136.8
137.7
138.0
140.2
141.7
192.8
202.6
206.6
422.7
256.8
473.5
473.5
511.3
518.4
535.3
545.5
652.8

660.44
672.52
685.90
688.12
692.27
703.65
703.75
713.15

Source

Exports of
competitively
Selected

Mr.
testimony
The
Assoc.

63-683

TABLE C.—MEXICAN BENEFITS OF UNITED STATES GSP (1976-79)

[Dollar amounts in millions]

	1976		1977		1978		1979	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Under GSP.....	\$1,038	100	\$1,244	100	\$1,576	100	\$1,927	100
Excluded because of competitive need.....	253	24	368	30	458	29	546	28
Excluded for other reasons.....	425	41	501	40	640	41	834	43
	361	35	375	30	478	30	548	29

TABLE D.—MEXICAN PRODUCTS EXCLUDED FROM U.S. GSP BECAUSE OF COMPETITIVE NEED (1976-79)

Description	Mexican exports							
	1976		1977		1978		1979	
	Thou- sands	Percent partici- pation	Thou- sands	Percent partici- pation	Thou- sands	Percent partici- pation	Thou- sands	Percent partici- pation
Cucumbers (Dec. 1-Mar. 28).....	\$8,059	96	\$10,747	96	\$30,709	97	\$29,100	97
Okra.....	581	69	931	51	1,360	59	1,507	76
Brussels sprouts.....	4,301	71	4,371	97	1,328	61	1,460	93
Broccoli.....	1,070	66	4,052	59	6,985	67	5,035	56
Chickpeas.....	7,042	62	6,070	58	6,377	85	6,917	85
Vegetables in salt.....	2,612	73	2,718	56	8,807	57	12,110	63
Straw processed.....	17,119	99	23,925	73	3,020	69	3,454	53
Wood moldings.....	15,694	71	21,374	99	39,453	99	35,474	99
Wood frames.....	23,007	93	27,055	95	27,560	70	23,831	68
Articles of paper n.s.p.f.....	1,579	99	1,073	97	1,794	91	45,383	91
Zinc sulfate.....	5,662	100	10,143	100	13,466	93	2,313	87
Litharge.....	345	89	770	98	1,072	93	1,451	100
Red lead.....	1,905	93	1,692	93	1,955	88	1,436	88
Concrete tiles.....	1,066	97	1,648	82	2,153	66	1,762	51
Pipes, asbestos.....	1,903	57	4,609	67	5,571	66	6,354	57
Ceramic sanitary ware.....	5,744	59	6,019	58	7,791	58	9,751	59
Glass globes and shades.....	22,004	62	25,060	63	28,395	58	26,359	53
Springs for vehicle suspension.....	54,702	35	55,279	29	67,991	18	60,611	14
Piston type engines.....	38,818	10	38,323	8	44,966	7	58,372	7
Office machine parts.....	69,144	21	71,952	18	89,551	16	119,327	15
Electric switches.....	12,943	55	18,266	58	22,782	53	50,126	71
Ignition wiring sets.....	88,785	13	128,863	15	141,040	10	163,965	10
Motor vehicle body parts.....	642	87	841	72	1,258	74	1,478	92
Headwear of leather.....	2,624	89	3,167	72	3,372	76	1,844	85
Other headwear.....	1,934	55	2,651	58	3,960	51	4,389	60
Parts of motors.....								
Total, 26 products.....	389,285		472,950		583,119		692,472	

U.S. Imports for Consumption (FT246 and IM146). U.S. Department of Commerce.

TABLE E.—PARTICIPATION OF SELECTED PRODUCTS EXCLUDED OF GSP

[Dollar amounts in millions]

	1976		1977		1978		1979	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Excluded because of competitive need.....	\$425	100	\$501	100	\$640	100	\$834	100
Excluded for other reasons.....	389	92	473	94	583	91	692	83

FRENZEL. The subcommittee is indebted to you for your fine testimony. Thank you very much.

Next witness is Mr. Thomas L. Kossel, of the Korea Traders Association.

**STATEMENT OF THOMAS L. KOSSL, COUNSEL, KOREA TRADERS
ASSOCIATION, WASHINGTON, D.C.**

Mr. KOSSL. I do not intend to read my statement, Mr. Frenzel. I ask that it be submitted for the record.

Mr. FRENZEL. Without objection, it will be included in the record at this point.

[The prepared statement follows:]

STATEMENT OF KOREA TRADERS ASSOCIATION

My name is Thomas Kossel and I am employed with the law firm of Daniels, Houlihan & Palmeter, P.C., in Washington, D.C.

I am appearing today on behalf of the Korea Traders Association, an association of Korean manufacturers and exporters of a range of products. The Korea Traders Association wishes to express its general agreement with and support for the President's Report to Congress on the first five years' operation of the U.S. Generalized System of Preferences (GSP).

Much of my testimony is supported by and derived from an economic and statistical analysis of U.S. import data and the operation of the U.S. GSP program undertaken by our firm in conjunction with the economic consulting firm, International Business and Economic Research Corporation. This study addresses the concerns expressed by the House Ways and Means Committee in its Report on the Trade Agreements Act of 1979. In particular, it addresses the Committee's concerns with the distribution of GSP benefits and the functioning of the 50 percent and maximum value competitive need limitations. The work undertaken in the study leads to the following conclusions:

1. The existing competitive need criteria have functioned effectively to eliminate tariff preferences for industries which have become competitive in the U.S. market.
2. Genuine improvements in the distribution of GSP benefits can only result from an expansion of GSP product coverage; Accelerated graduation of beneficiary countries will not accomplish that end.
3. Exclusion of the major GSP beneficiaries from the U.S. program of Generalized System of Preferences would result in a shift of U.S. import market share from beneficiary countries to the already developed economies of Europe and Japan.

The study further details the recent, extensive measures undertaken by the Republic of Korea to reduce tariffs and trade barriers and to open its markets to U.S. exports. These efforts have resulted in a 1979 surplus in U.S. trade with the Republic of Korea totaling \$143.7 million. While time limitations prevent any extensive discussion of these issues in my testimony, reference is made to the study, which we ask to be submitted for the record.

As detailed in the President's Report, the GSP program has had only a minimal impact on the U.S. economy. In 1978, GSP duty-free imports accounted for only 3 percent of total U.S. imports. The scope of the U.S. GSP program had been severely limited from the onset through the exclusion of many "import-sensitive" product groups. Tariff reductions negotiated in conjunction with the Multilateral Trade Negotiations will reduce GSP tariff preferences by an average of 50 percent, resulting in an average preference of only 4.5 percent.

At the same time, the Generalized System of Preferences provides developing economies with important and much needed opportunities for expansion and diversification. The relative importance of the GSP trade to developing countries is reflected in the fact that over 12 percent of imports from beneficiary countries in 1978 were in GSP product categories, or, on average, four times the concentration of trade in GSP eligible categories reflected in U.S. imports for all sources combined.

Much emphasis has been given to the relatively high concentration of GSP benefits among five developing countries—Taiwan, Korea, Hong Kong, Mexico and Brazil. As noted in the President's Report, this concentration was not unexpected. Any major participation by most developing countries in the early years had been virtually precluded by the structure of the U.S. GSP program which excludes the bulk of items of major export interest to the developing economies—textile and apparel articles, footwear, articles subject to national

security action, watches, import-sensitive electronic, steel and glass products, and a huge number of other products deemed to be "import-sensitive" at the initiation of the program. Studies indicate that minimum levels of technology, infrastructure, and shipping and marketing capability are required before developing countries can avail themselves of the program's benefits. The true cause of the inadequate distribution of GSP benefits lies in the limited product coverage of the program itself. As discussed below and supported by our study, participation in the program by the other developing countries has been neither precluded nor suppressed by the higher rate of activity of the major GSP suppliers.

In fairness, it should also be emphasized that the bulk of GSP exclusions under the existing competitive need criteria are also concentrated among the same five major GSP suppliers. (See Study Table II, attached.) The President's Report notes that 63 percent of all competitive need exclusions in 1978 were applied to the five major beneficiary countries. For industrial products, the level of competitive need exclusions was 81 percent. In fact, the average annual rate of growth of industrial product exclusions for the five countries exceeded the rate of growth of industrial imports from those countries.

An examination of the major GSP categories in terms of dollar value of imports from beneficiary countries demonstrates just how extensive exclusions under the existing competitive need limitations have been. For example, reviewing the 16 categories for which GSP eligible imports exceeded \$100 million in 1978, the total combined share of imports from the five major GSP suppliers exceeded \$2 billion and represented about 61 percent of imports from all beneficiary countries in those categories (see study Table IX, attached). However, the total amount of imports represented by categories exceeding competitive need ceilings totaled approximately \$1.6 billion, or 78 percent of all imports from the major beneficiaries in the 16 categories. The impact of these competitive need exclusions was to reduce the potential duty-free share of the major suppliers to only 13.5 percent.

At the same time, the evidence indicates that participation in these categories by the major suppliers did not prevent other beneficiary countries from also participating in these categories. In the 16 categories, the total number of GSP participants ranged from a minimum of 11 to a high of 70. The average level of participation in individual categories was 37 GSP suppliers, while the median or middle level was also 37. In three-fourths of the categories, or 78.4 percent in value terms, at least 25 GSP beneficiary countries competed in the U.S. market.

The above factors suggest that, as other beneficiary countries acquire the necessary levels of technology and production capability in GSP eligible categories, their relative share in the distribution of GSP benefits will increase while that of the current five major beneficiaries declines. There is evidence that a second tier of beneficiary countries is emerging. Import statistics for the years 1976 through 1978 show that other "advanced" developing countries have increased their GSP duty-free trade by 66 percent. Accelerating the rate of graduation of countries or products out of the GSP program will not speed this gradual process. This conclusion is supported by the statistical data presented in our study.

The study examines import statistics in product categories for which any of the five major GSP suppliers exceeded the competitive need ceilings. As a general matter, imports from other beneficiary countries experienced growth rates in the period subsequent to graduation which were no greater than growth in the pre-graduation period. At the same time, the level of exports for other beneficiary countries generally increased at a steady rate in both periods. This suggests both that the existence of GSP duty-free imports from the major beneficiaries did not suppress exports from other beneficiaries and that graduation by the major suppliers had little, if any, impact on the level or growth in exports from other beneficiary countries.

To take one example which is representative of the data presented in the study, in 1976 there were 15 categories for which the dollar value limit had been exceeded by one or more of the five major GSP beneficiaries. All groups of countries—the lesser developed, mid-level and other advanced developing countries—maintained often substantial levels of exports which grew at a relatively steady pace both prior and subsequent to graduation of the major beneficiaries. The lesser developed countries were able to export in all but one of the 15 categories. The data also indicate that in most categories the lesser developed countries performed better in the pre-graduation period than subsequent to graduation. In

the two categories for which performance by the lesser developed countries was worse in the pre-graduation period, those countries, nevertheless, experienced pre-graduation growth rates of 54 percent in one category and 85 percent in another. The data reveal similar patterns for both the mid-level and other advanced groups.

The significance of these data is that they suggest that even if the rate of graduation out of the GSP program were accelerated, other developing countries would not significantly increase GSP exports. It also appears that the level of export trade for countries at all three levels of development is not a function of the presence or absence of GSP competition from the major beneficiary countries, but is dependent upon a number of other factors.

Based upon the above considerations and those presented more fully in our Study, we believe the President was correct in recommending that no changes in the existing competitive need criteria are warranted at this time. The existing competitive need ceilings have proven effective in eliminating tariff preferences for industries in developing countries which are able to compete in U.S. markets. Our data indicate that adjusting downward the competitive need ceilings or increasing graduation by country product would not, in any case, serve to further the goal of improving the distribution of GSP benefits. Therefore, it is correct that the current competitive need formula be maintained and that benefit distribution be improved by means of an expanded product coverage.

TABLE II.—IMPACT OF COMPETITIVE NEED CEILINGS ON GSP TRADE OF MAJOR BENEFICIARIES AND OTHER COUNTRY GROUPINGS

	Exceeded 50 percent limit and exceeded value limit	Percent of total eligible trade	Total eligible trade	Percent of GSP duty free	GSP duty free
Taiwan:					
1976	161,358,419	15.3	1,054,803,468	22.7	227,987,182
1977	342,889,038	25.4	1,350,487,740	37.6	511,577,195
1978	415,007,217	20.7	1,998,111,093	29.0	1,433,371,890
Mexico:					
1976	424,812,465	41.0	1,038,676,448	162.9	253,062,120
1977	501,194,981	40.3	1,244,061,355	136.1	368,309,728
1978	640,145,753	40.6	1,575,918,191	199.7	458,253,697
Hong Kong:					
1976	380,139,807	44.2	860,240,290	109.6	346,916,594
1977	574,094,739	49.5	1,159,806,743	118.1	485,995,869
1978	668,891,394	50.5	1,324,901,738	124.4	537,478,245
Korea:					
1976	145,129,294	24.5	591,400,995	44.5	327,459,733
1977	178,305,462	22.3	800,958,713	33.5	551,510,019
1978	332,713,907	30.5	1,089,154,887	51.3	647,401,150
Brazil:					
1976	36,539,126	12.6	289,167,675	17.0	214,741,992
1977	121,783,053	26.0	507,917,202	38.2	343,819,410
1978	166,265,242	26.3	632,132,063	35.5	468,051,054
Advanced:					
1976	1,240,897,844	26.6	4,669,575,153	51.5	2,414,535,835
1977	1,885,502,855	31.5	5,983,327,527	57.7	3,268,911,844
1978	2,332,647,210	29.6	7,882,437,140	82.4	4,449,367,416
Mid-level:					
1976	594,619,301	36.7	1,617,957,588	94.2	631,409,671
1977	884,819,081	59.9	1,477,810,639	100.0	477,043,498
1978	847,411,674	53.5	1,583,169,167	100.0	576,509,021
Lesser-developed:					
1976	29,975,836	77.6	232,624,089	27.6	108,602,593
1977	32,719,240	15.5	210,466,683	24.5	133,241,156
1978	56,629,357	13.7	266,319,616	21.5	170,441,413

TABLE IX.—SUMMARY: GSP CATEGORIES EXCEEDING \$100,000,000 IN IMPORTS FROM ALL GSP SUPPLIERS, 1978

I. Description of categories:		
Total categories		16
Value of imports from GSP suppliers in 16 categories (millions)	\$3,339.0	
Value in 16 categories as a percentage of all eligible imports from GSP suppliers	34.3	
Number of GSP suppliers participating in each category:		37
Average		37
Median		11-70
Range		
II. Imports from Korea and the 5 major beneficiaries:		
Value of imports in the 16 categories (millions)	\$346.4	\$7,051.4
Value as a percentage of total value in all GSP eligible categories from Korea and 5 major beneficiaries	31.8	30.8
Value of imports from Korea and 5 major beneficiaries as a percentage of imports from GSP suppliers in the 16 categories	10.4	61.4
III. Impact of competitive need ceilings:		
Value of imports from Korea and 5 major beneficiaries in 16 categories exceeding competitive need ceilings (millions)	\$258.1	\$1,601.1
Value of imports from Korea and 5 major beneficiaries not exceeding competitive need ceilings in 16 categories (millions)	\$88.3	\$450.4
Share of imports from Korea and 5 major beneficiaries in 16 categories not exceeding competitive need ceilings as a percentage of imports from all GSP suppliers in 16 categories	2.6	13.5

Source: Summary of table V.

Mr. KOSSL. I would also like to submit a study conducted by our firm and our economic consultants on the GSP program which is referenced in my statement.

Mr. FRENZEL. That has been made a part of the record as well.

Mr. KOSSL. My name is Thomas Kossel. I work for the law firm of Daniels, Houlihan & Palmeto, P.C., in Washington, D.C.

I am appearing today on behalf of the Korea Traders Association, an association of Korean manufacturers and exporters of a range of products.

I wish only to make a few points in reference to issues that were raised in earlier testimony today.

First of all: Much has been made of the fact that a large concentration of the GSP benefits belong to five countries. I think that if there is going to be a focus on the concentration of the benefits, there also has to be a focus on the concentration of competitive need exclusions.

I would just like to point out that the competitive need exclusion experienced by these same five countries are in a higher proportion than the proportion of their benefits.

Second: Our study to other studies indicate that the reason for the uneven distribution of the GSP benefits is not the participation in the GSP program by the five major GSP beneficiaries, but the narrow product coverage of the GSP program itself.

At the outset of the program, a number of items were excluded from

GSP coverage. The bulk of these items were the ones that were of major export interest to developing economies. These included many textile and apparel articles, footwear articles subject to national security action, watches, import-sensitive electronic steel and glass products, and a huge number of other products deemed to be import-sensitive.

In point of fact, many of the developing countries simply do not have the technological capability, infrastructure, or export and marketing know-how necessary to manufacture and sell most of the items which remain on the GSP list.

Within the context of our study of the GSP program, one of the elements that we directed our attention toward was the impact of graduation by the major beneficiaries upon the utilization of the GSP program by the lesser developed of the developing countries. That data is available and has been submitted to the committee. It is part of our study.

The general conclusion to be drawn is that as the major beneficiary countries have graduated out on a product by product basis, there has not been a great deal of additional activity on the part of the other developing beneficiary countries.

In general, the export activity of the other beneficiary countries has been steady and increasing in both the pregraduation periods and in the postgraduation periods, but the rate of participation has not increased substantially subsequent to graduation.

That concludes my statement. I would be happy to answer any questions you may have.

Mr. FRENZEL. Thank you very much, Mr. Kossel.

We appreciate your testimony.

Next we will hear from Mr. Matthew Runci, executive assistant to the vice president, accompanied by Mr. Lew B. Martin of the Manufacturing Jewelers and Silversmiths of America, Inc.

Your statement will be accepted for the record and you may proceed as you choose.

**STATEMENT OF M. MATTHEW RUNCIL, EXECUTIVE ASSISTANT TO
VICE PRESIDENT OF THE MANUFACTURING JEWELERS AND
SILVERSMITHS OF AMERICA, INC., ACCOMPANIED BY LEWE B.
MARTIN, COUNSEL**

Mr. RUNCIL. My name is Matthew Runci. I am executive assistant to the executive director, vice president of Manufacturing Jewelers and Silversmiths of America, Inc.

I appear here on behalf of a national trade association with a membership of over 2,000 manufacturers of precious and custom jewelry, as well as findings, chain and other jewelry allied products. Our membership employs about 87,000 people throughout the country.

We appreciate the requirement included by Congress in the Trade Act of 1974 for a comprehensive review of GSP after its first 5 years of operation and the oversight role this committee has assumed in this trade matter.

Only too often has legislation resulted in unintended practices by our administrative agencies. We appear here today because we feel our industry has been involved in a GSP procedure that was not specifi-

really provided for in title 5 of the Trade Act or, to our knowledge, in any other section of the United States Code.

Previously the background of our concern is as follows:

Our industry produces jewelry which is dutiable under various USTS items; gold jewelry and chain and chain bracelets and necklaces are classified under USTS.

Both items were included in the President's original list of articles for consideration for designation as eligible articles in 1975.

Despite representations as to the import sensitivity of the domestic industry, all these articles were designated eligible for GSP.

Imports from Israel of such jewelry rapidly expanded under GSP and almost reached the value competitive need limitations in 1978 which would have revoked Israel's eligibilities for 1979.

On June 21, 1979, the Israel Export Institute filed a petition with the special trade representative requesting a subdivision of item 740.10, the item where most finished gold jewelry is classified into five new TSUS items.

The President in Executive order designated five new USTS items for the GSP eligibility, all the articles previously included in item 740.10.

The facts are that jewelry from Israel classifiable under 740.10 did exceed the competitive need limitations as reported by the Bureau of the Census by over one-half a million dollars. We expected, therefore, that U.S. importers would be required to pay duties on these rapidly increasing imports in 1980.

To our surprise, when the executive order was published, the Office of Special Trade represented that U.S. customs had agreed to reclassify 24 entries of jewelry with a value of over \$1 million.

Our next jolt was when we learned that there would be five new eligible articles in 1981 so that, in effect, instead of facing a competitive need of about \$45 million, the Israelis would be allowed five times that much or \$225 million.

It was our understanding when Congress enacted the Trade Act of 1974, which included the GSP program, that it was to be an accomplished fact with only minor modifications rather than an evolving program influenced by the pressures of international politics.

As the GSP program has moved through the last 5 years, it has been subjected to continual liberalization in that it has been far easier for foreign governments to add articles than for domestic industries to delete them.

In our particular case, not only have the competitive need limitations been circumvented by a reclassification of 1979 entries which enabled GSP for 1980, but also by a breakout of new five-digit items which assures free entry for 1981 and probably the remaining 5 years of the GSP program.

We, therefore, believe that this oversight review is opportune and the recommendations can be made as to GSP management and the establishment of criteria and the additions and deletions we have requested the legal authority used by the USTR to advise the President he can so designate eligible articles and have told him several provisions, some outside title 5 GSP, are the basis for such administrative action.

It is our understanding that no administrative or judicial ruling has been made in this regard.

Counsel for our association has recently made a request of the USTR for its interpretation for specific statute as to GSP eligibility.

May I urge that this committee consider only obligations made by the International Trade Commission, an independent agency made to report to Congress, in its report on the first year of operating the USTS program.

ITC stated, "It has been suggested that consideration of GSP status should be applied on a product-by-product basis rather than USTS items."

Although Congress was aware of this problem, it took no action in designating articles on a product-by-product basis, even though Congress did make other amendments in that section of that act relating to limitations on preferential treatment, section 504C1.

Under the guise of pragmatic case-by-case approach, the administration, particularly State and USTR, have emphasized the necessity of approving individual items proposed for designation as GSP-eligible or import-sensitive, and thereby diverted attention by administrative fiat.

We submit Congress must address this matter and either restore the basic concept of the U.S. GSP program or make an announcement to those affected industries.

Thank you, Mr. Chairman.

Mr. FRENZEL. Thank you very much for your testimony. We appreciate hearing from you.

[The prepared statement follows:]

STATEMENT OF M. MATTHEW RUNCI, EXECUTIVE ASSISTANT TO VICE PRESIDENT/EXECUTIVE DIRECTOR, MANUFACTURING JEWELERS AND SILVERSMITHS OF AMERICA, INC.

SUMMARY

MJSA is a national trade association of 2,000 manufacturers of jewelry. A list of the members is attached to the original copy of this statement.

The witness will testify as to Report of the President on the operation of the Generalized System of Preferences and particularly as to the authority of the U.S. Trade Representative to advise the President as to which articles should be designated as eligible articles for the purposes of the system of generalized preferences. Specifically the witness will address the situation where the competitive need value limitation is exceeded for a five digit TSUS Item and the President changes the designation of eligible articles within that Item, i.e. to create new five digit Items.

The witness will recommend that this Committee exercise its oversight responsibilities to determine whether Congress intended that the President be delegated the authority to change the designation of eligible articles within existing GSP eligible five digit TSUS Items to create new GSP eligible five digit TSUS Items.

STATEMENT

Mr. Chairman, my name is Matthew Runci. I am Executive Assistant to the Vice President/Executive Director of the Manufacturing Jewelers and Silversmiths of America. We are the principal national trade association representing 2000 manufacturers of precious and costume jewelry, as well as findings, chain and other jewelry allied products. Our membership employs about 87,000 persons throughout the country.

I appear before your subcommittee today because we are deeply concerned as to the operation of the Generalized System of Preferences. Recent changes in the designating of eligible articles will have an impact which we believe will seriously affect this industry in the future. We firmly maintain that certain aspects of the current administration of the GSP are contrary to both the spirit and the letter

of the statutory authority for GSP included by Congress in Chapter V of the Trade Act of 1974, and, therefore, are in contravention of the clearly expressed intent of the Congress when it delegated this authority to the President.

Before detailing the basis of this concern, however, may I say that our objection is not to the concept upon which GSP is based. The idea of helping developing countries diversify their economies and increase their export earnings, so as to provide them with a source of investment capital and foreign exchange for purchasing imports of basic necessities, is highly praiseworthy. By encouraging development through trade, this program of preferential tariff privileges was intended by Congress to reduce the BDC's dependence on foreign aid.

We should bear in mind that Congress established provisions to guide the President in providing duty-free treatment for eligible articles from developing countries:

(1) The effect such action will have on furthering the economic development of developing countries;

(2) The extent to which other major developed countries are undertaking a comparable effort to assist developing countries by granted generalized preferences with respect to imports of products of such countries; and,

(3) The anticipated impact of such action on United States producers of like or directly competitive products.

Furthermore, Section 502 of the Trade Act of 1974 identified criteria for country eligibility, article eligibility, and safeguard limitations on preferential treatment (known as competitive need limitations).

We maintain that the legislative history shows that Congress clearly intended that the competitive need formula would provide assurance that GSP benefits be accorded only to developing countries which were not yet internationally competitive in specific products, i.e., the least competitive producers. Once a beneficiary country achieved a certain level of efficiency in a particular sector, the specified products imported from that country would be removed from this preferential status. Congress defined the standard for this level of achievement as either (a) the shipment by that country of more than 50 percent of the total U.S. imports of that product for one calendar year or, (b), the shipment by that country of more than a certain dollar value (\$41.9 million for 1979) which is adjusted annually to reflect the growth in the U.S. gross national product (GNP). These safeguard provisions were also intended to provide some measure of protection to domestic industries, whose sensitivity to imports was to be carefully evaluated in terms of impact on employment, production, investment, capacity utilization and profits. Moreover, one of the criteria for a country's eligibility is its assurance (and presumably its subsequent demonstration) that the United States will have equitable and reasonable access to its markets and to its basic commodity resources.

Based upon Executive Order 12204 of March 27, 1980, it appears that the fundamental intent of Congress as briefly outlined above has been undeniably thwarted. We maintain that this action by the President, contrary to the intent of the Congress as embodied in the provisions of the Trade Act of 1974, constitutes an outrageous injustice to the American jewelry manufacturing industry.

Executive Order 12204 of March 27, 1980 (45 F.R. 20748, 1980) provided that effective March 31, 1980 TSUS Item 740.10 would be subdivided into the following classifications:

Section B.—Effective as to articles entered, or withdrawn from warehouse for consumption on and after March 31, 1981

1. (a) Item 740.10 is superseded by:
[Jewelry . . . :] Other: Of precious metals: Necklaces and neck chains almost wholly of gold:

740.11.—Rope—[See Annex V]: 6.5 percent ad val.: 80 percent ad val.
740.12.—Mixed link—[See Annex V]: 6.5 percent ad val.: 80 percent ad val.
740.13.—Other—[See Annex V]: 6.5 percent ad val.: 80 percent ad val.
740.14.—Other—[See Annex V]: 6.5 percent ad val.: 80 percent ad val.
740.15.—Other—[See Annex V]: 6.5 percent ad val.: 80 percent ad val.

(b) Conforming change: The subpart A, part 6, schedule 7 headnotes are modified by adding thereto:

5. The term "mixed link" in item 740.12 refers to a chain composed of two or more styles or types of link.

This decision comes as a result of a petition submitted by Israel to the GSP Subcommittee on the Trade Policy Staff Committee, STR, in June 1979. This

petition sought subdivision and reclassification for GSP purposes of TSUS Item 740.10 Jewelry into six new five-digit TSUS classifications. The petitioner cited as its principal reasons for seeking this action the following:

1. That gold price increases were primarily responsible for the fact that Israel's imports in this category were approaching the competitive need limitation, and that it would be unfair to limit imports merely because of gold price increases.

2. That Israel's infant jewelry industry could not yet compete with Italy's sophisticated industry for a share of the American market.

3. That the United States would benefit from the proposed reclassification since:

(a) The American consumer would have a source of inexpensive fine jewelry; and

(b) "little if any, fine jewelry is produced in the United States Israel actually competes with Italian-made rather than U.S.-made jewelry."

4. That TSUS Item 740.10 is "an ill-defined basket category" which had become inappropriate because imports in this category had substantially increased in recent years. Reclassification would permit better statistical analysis "in the event a United States gold jewelry industry should develop."

In short, the petition asserted that reclassification for the purpose of circumventing the competitive need limitation was both reasonable and within the authority of the Office of the Special Representative for Trade Negotiations.

In testimony presented before the GSP Subcommittee in September 1979, George R. Frankovich, Vice President/Executive Director of the Manufacturing Jewelers and Silversmiths of America, challenged all of these assertions. In brief, he pointed out:

1. During the period of time in question (1974-1978), while the price of gold did increase 122 percent, the value of Israeli gold jewelry exports had increased by 1700 percent. Thus increased volume of production, rather than precious metals prices, accounted for the fact that the competitive need limitation might be exceeded. (See Table 1-1 and 1-2 attached.)

2. Contrary to the petitioner's assertion, Israel's precious jewelry industry is already well-developed and highly-competitive even with Italian exports for a share of the American market. It is clear, from the facts and from Israel's explanation of the dramatic progress its precious jewelry industry is making as a major exporter to the United States, that Israel is joining the ranks of the major world powers in precious jewelry manufacture. Its planning and investment are far above that of Hong Kong whose exports to the U.S., in spite of withdrawal of GSP status have exceeded the growth rate of the domestic industry. As a percentage of Israel's total jewelry exports, shipments to the U.S. already accounted for 90 percent, and Israeli projections through 1983 suggested that that level would be maintained. It should be pointed out that this very development is cited by the President's Five-Year Report on GSP as being highly unsatisfactory to long-term planning of any GSP-favored industry because of the excessive dependence on a single national market that may occur. (See Tables 1-3 and 1-4 attached)

As further evidence of the sophisticated and competitive character of the Israeli industry Frankovich pointed out that in TSUS Item 740.70, Chain, Israel was accounting for more than 50 percent of the total U.S. imports of that commodity during 1979 and would, in all likelihood, be denied GSP status for that category through automatic statutory provisions. In point of fact, this was subsequently accomplished, presumably signifying, in light of highly optimistic Israeli industry projections, that the category no longer applied.

3. The assertion that the American consumer would benefit from the reclassification because there is no American precious jewelry industry in existence was plainly ludicrous. The following data were provided:

This industry is composed of 2,207 firms with over 41,300 employees. Total value of shipments increased 83 percent between 1972 and 1977, and 178 percent between 1967 and 1977. Employment in the industry increased 27 percent (1972-77) and 38 percent (1967-77). The number of plants increased 45 percent (1972-77).

The precious metal jewelry industry is labor intensive, with relatively low capitalization and, therefore, in direct competition with foreign, lower paid labor. This industry has a high degree of specialization (93 percent in 1972).

1 firms that specialize in precious jewelry account for 96 percent of all precious jewelry manufactured in the U.S. The machine-made chain industry in the U.S. is less labor intensive.

Firms are small and hence their ability to diversify is limited. Less than 50 percent of the value of total shipments in 1972 were accounted for by the 50 largest firms. The average number of employees per firm is 20.4.

1. The final assertion, that TSUS Item 740.10 was an inappropriate and ill-defined basket category, was also challenged on two grounds:

(a) This category was already subdivided into two subcategories for purposes of specificity: (740.1020—Jewelry of precious metal, including bracelets and necklaces; and, 740.1040—other jewelry).

(b) An additional existing category, TSUS Item 740.70, is comprised basically of gold chain. Hence chain, whether cut or uncut, was already broken out as a separate category under the existing classification scheme. It was this type of product that the Israelis professed to be interested in exporting to the U.S. in substantially greater quantities.

In challenging these assertions, it was pointed out that once previously, another nation (Hong Kong) accorded GSP treatment for TSUS Item 740.10, exceeded the competitive need limitation (by dollar value) during the first nine months of 1976, and subsequently was denied this preferential treatment by automatic statutory provisions.

In light of this review of the petition in question, it must be clear that the effect of Executive Order 12204 of March 27, 1980 is to grant almost completely the petitioner's request for subdivision and reclassification and to disregard just as completely all of the evidence presented on behalf of the American jewelry manufacturing industry. On this basis, we must, therefore, reassert that the subdivision and reclassification in question amounts to nothing less than direct subversion of the intent of Congress when it instituted GSP. Nowhere did Congress specify that changes in designation of eligible articles could serve as a legitimate means to circumvent the statutory provisions of the competitive need limitation formulas. Indeed, we maintain it intended just the contrary as evidenced by the provision of adjusted competitive need ceiling based on the level of U.S. GNP.

The MJSA in its Rebuttal Brief before the Trade Policy Staff Committee presented the following arguments as to the proposed delegation of eligibility to newly created five-digit TSUS Items.

The domestic industry asserts that the division of the two existing classifications currently enjoying GSP privileges, TSUS Item Nos. 740.1020 and 740.1040, into five new TSUS Items, each having its own five-digit TSUS number is not authorized by law and would result in the subversion of the Trade Act of 1974 by circumventing the carefully drawn competitive-need limitation of the Act. It is respectfully submitted that Section 604 of the Trade Act of 1974, 19 U.S.C. § 2484, only gives the President limited authority to make changes in the Tariff Schedules of the United States pursuant to his authority under Section 501 of the Trade Act of 1974, 19 U.S.C. § 2461.

The President has the authority to subdivide articles out from under a five-digit TSUS item number and create new five digit TSUS item numbers only when every article within the group represented by an item number of the Tariff Schedules of the United States is not eligible for duty-free treatment under a Generalized System of Preferences. Only under these circumstances may the President subdivide an existing TSUS item number and create new five digit TSUS item numbers. See Executive Order No. 11888, Nov. 24, 1975, 40 Fed. Reg. 5276, set out as a note under 19 U.S.C. § 2462. It is submitted that the statutory authority delegated by Congress does not include the power to subdivide out and create new five digit TSUS item numbers for numerous articles, all of which previously have been designated eligible for GSP benefits.

Unlike the factual situation outlined in Executive Order No. 11888, every article petitioner sought to subdivide out was already eligible for duty-free treatment due to the fact they fall under TSUS Item 740.10. In the absence of the need to draw a distinction between eligible and non-eligible articles within a group represented by a single item number of the TSUS, there is no justification or authority for amending the TSUS by creating new five digit TSUS item numbers each of which will be designated for duty-free treatment. The granting of petitioner's request would only result in the circumvention of the statutory competitive-need limitation. This was not the reason Congress granted the Presi-

dent the limited statutory authority to modify the Tariff Schedules of the United States.

Once a country has reached a specific level of development, a level which Israel is approaching, Congress intended that the advantages of GSP should not continue. The reasons offered by the petitioner as to why the carefully legislated competitive-need limit should be emasculated in the instant case did not justify this Subcommittee granting a petition which would result in the subversion of the spirit and letter of Title V of the Trade Act of 1974.

It is submitted that Congress was aware of the fact of the "problem" raised by the petitioner concerning the dollar value competitive-need limitation when it applies to TSUS "Basket" items. However, Congress did not elect to rectify the problem when it enacted Section 1111 of the Trade Agreements Act of 1979, which amended various provisions of Title V of the Trade Act of 1974.

The U.S. International Trade Commission published in March 1978, a Staff Research Study which specifically commented on two operational problems involved in applying the competitive-need limitations. USITC Study of The Effects Of The Generalized System of Preferences on U.S. Trade In The Program's First Year of Operation, 1976, March 1978, at 53. The first problem indicated by the Study was that the competitive-need limitation concerning the 50 percent criterion was applied against countries for imports greater than \$250. According to the Study, many suggestions were made to apply the 50 percent criterion against a set de minimus limit (e.g. \$1 million) to allow the developing countries more reasonable access into the U.S. marketplace. In response to this problem, Congress legislated the \$1 million de minimus provision by amending Section 504(d) of the Trade Act.

Under the amended Act, the 50 percent limitation is not applicable if the appraised value of total imports of the article into the United States during the preceding year does not exceed one million dollars.

The ITC Staff Research Study explained the second operational problem as follows:

A problem concerning the dollar value competitive-need limitation is that it applies to TSUS "basket" items where many products are included. As a result, all products are vulnerable to the loss of GSP status even if only one product in the "basket" has exceeded the competitive-need limit. It has been suggested that consideration of GSP status should be applied on a product-by-product basis, rather than by TSUS item, since under this system, only the product which reached the competitive-need limit will lose its duty-free status under the GSP. USITC Study of The Effects of The Generalized System of Preferences On U.S. Trade In The Program's First Year Of Operation, 1976, at 53.

Although Congress was aware of this problem, it took no action on clarifying the subdivision of TSUS items by legislatively providing for GSP to apply on a product-by-product basis.

Petitioner's allegation that revision and subclassification is necessary in order to bring 740.10 more into line with present day market reality raises the same issue in a round about way. Record at 29. However, petitioner is attempting to camouflage the issue when it presents the problem in the context of the price of gold. What petitioner seeks is a competitive-need limitation which would apply on a product by product basis rather than applying to an existing TSUS item and all articles which fall under the TSUS item. Since Congress saw fit not to legislate a competitive-need limitation on a product by product basis, this Committee should not do so.

If the petition is granted in the instant case, the Committee would be extending GSP benefits to an enlarged volume of products. In effect, the Committee would be legislating by administrative fiat. It is respectfully submitted that, if Congress deems it necessary and proper, it will legislate a specific exception to the competitive-need limitation in cases where the price of raw materials, such as gold, silver and petroleum, has increased significantly over a period of years. Until that time, subdivision as a means of avoiding the competitive-need limit should not be allowed.

On a related point, as previously indicated, the petitioner asserted at the public hearing that the revision and subclassification of 740.1020 and 740.1040 would permit better statistical analysis and better control over imports. Although we agree with the objectives of improving statistical analysis, we disagree with the petitioner's methods. A petition under GSP to subdivide an existing five-digit

TSUS Item which includes several related articles is not a proper method of achieving better statistical analysis. This result can be achieved by seeking further statistical breakdowns through the Section 484(e) Committee composed of the Departments of Treasury and Commerce, and International Trade Commission, 19 U.S.C. § 1484(e). Thus, the alleged need for further statistical breakdowns of a TSUS item should not be considered a valid justification for granting a GSP petition.

Equally troubling is the reasoning provided by USTR for the further designation of eligible articles. As outlined in conversation by Mrs. Melissa Coyle, Assistant Director of the GSP Subcommittee at USTR and in a letter to Senator Samuel Hayakawa from Reuben Askew, which is attached, it is as follows:

1. As a trend over the period 1976-1979, non-GSP countries, which supply the majority of imports in this category, have increased their jewelry imports to the U.S. As a consequence, GSP countries' share of the American market has declined during this period. Reclassification and subdivision, based on a formula devised by USTR, therefore provided an opportunity to redress that change and restore GSP's share of market. This new reasoning introduced by USTR would appear to depart from the original intent of Congress. This conclusion was reached in spite of the fact that Israel had, according to Customs and Census figures, exceeded the existing competitive-need limitation for 1979 for both TSUS Items 740.10 and 740.70.

2. Based on information supplied by the Department of Commerce and the International Trade Commission, The American jewelry industry as judged to be healthy as evidenced by increasing production. This conclusion was reached in spite of testimony presented by this Association at the aforementioned hearings that total jewelry imports had increased their share of the American market significantly (to about 25 percent from 16 percent the year before), that under the Tokyo Round tariffs for this industry were reduced by an average of 57 percent, and that unemployment in the industry was then running well ahead of the national average. Subsequently, unemployment worsened considerably, and is currently estimated to be as high as 12 percent in Rhode Island and nearly 40 percent in New York where the precious jewelry industry is concentrated.

3. Israel was judged to be eligible for continued GSP treatment in this category. This conclusion seems questionable in light of its having exceeded the competitive-need limitations. Furthermore, The Israelis have themselves, both in petition and repeatedly in industry publicity in the trade press, projected significant future production growth in this industry which will be targeted primarily at the American consumer market.

Two samples of this type of public relations message are attached. Most recently, we have learned from the Department of Commerce that Israel has severely curtailed issuance of import licenses for gold and silver jewelry. According to one firm queried by a representative of the U.S. Embassy in Tel Aviv, it had become virtually impossible to obtain an import license for jewelry regardless of its source. The source cited as reason that the Government's policy was to protect the jewelry industry which was experiencing considerable difficulties due to high gold prices and credit restrictions imposed by the Government. (Attachment—is a copy of Department of Commerce Incoming Telegram of January 30, 1980) Finally, Israel's continued eligibility seems questionable in light of the fact that the Government chose not to sign the Codes which constituted an integral part of the MTN. Without this adherence, it seems clear that the Israeli position is purely self-serving and not in keeping with the spirit of MTN or the concept of GSP.

4. Redesignation of countries on an item-by-item basis for GSP purposes is held to be a discretionary procedure by USTR. Once again, the authority for this interpretation is, we maintain, nowhere in evidence.

5. USTR appears to have consulted with the Israeli petitioners after their petition was submitted to devise a formula for reclassification and subdivision that USTR would regard as acceptable. The U.S. industry or its representatives were not consulted. Instead MJSA was asked simply whether its position outlined in testimony had changed, to which the response was negative.

A final objection must be raised to USTR's ruling that Israel will retain its GSP eligibility for TSUS Item 740.10 in 1980 despite the fact that according to statistics released by the Bureau of the Census, its imports in this category exceeded the dollar value ceiling for 1979. The data is as follows:

IMPORTS FROM ISRAEL IN 1979
U.S. BUREAU OF CENSUS 198-146 AND SPECIAL REPORT TO USTR

	Dutiable	Duty free	Total
740.1020	\$1,106,999	\$40,528,058	\$41,635,057
1940	23,593	781,715	805,308
740.1000	1,130,592	41,309,773	42,440,365

Note: The competitive need appraised value for 1979 was \$41,899,590, without adjustment Israel would have exceeded this value by \$540,775.

We have been advised by Census that as a result of efforts by Israeli representatives, Customs Bureau officials changed the classification of over \$1 million of consumption entries from TSUS Item 740.10 to 740.70 upon their liquidation. The effect of this action was to revise the appraised total for 740.10 downward to \$41,402,705, below the existing competitive-need ceiling of \$41,899,590 for 1979. Census will release these corrected import values to the public in June 1980. It should be recalled that since the ceiling for TSUS Item 740.70 had already been exceeded, no change in the GSP status of this classification occurred as a result of the revised liquidation entries. While we understand that this procedure for revision does occasionally occur and is within the scope of Customs Bureau authority, it is rare and, in light of the amount and its significance in this instance, it is questionable and should merit careful reexamination.

In summary, we respectfully submit that the American jewelry manufacturing industry has been dealt a tremendous injustice by these decisions. Moreover, we submit that the President's administration of GSP is in direct contravention of both the letter and the spirit of the system as originally established by Congress.

Therefore, we urge the enactment of new legislation for the purpose of correcting past abuses which will otherwise have far-reaching implications over the next five years. Such legislation should, in our estimation, bind the Executive to adhere to the competitive-need limitation established by Congress. The Executive ought to be required to demonstrate why, in exceptional circumstances, it might be necessary to waive that Congressional formula in the interests of the public good.

TABLE 1-1.—PRICE MOVEMENTS OF RAW GOLD, 1974-78
[United States dollars per fine ounce, United Kingdom, London; quarterly and yearly averages]

	I	II	III	IV	Average
1974	156.00	158.50	154.42	179.17	162.07 ²
1975	178.27	166.92	156.25	140.43	160.43
1976	130.02	125.90	110.83	129.38	124.0
1977	140.55	144.40	148.05	162.17	148.79
1978	179.87	179.35	208.68	220.67	197.14

TABLE 1-2.—ISRAEL'S PRODUCTION OF GOLD JEWELRY, 1974-78
[In millions of dollars]

	1974	1975	1976	1977	1978
Total production	8.8	11.2	18.2	29.7	54.8
Export (total)	2.2	2.8	7.3	17.7	39.8
TSUS 740.10 (precious metal jewelry)		2.1	2.7	6.1	6.9
TSUS 740.70 (chain)		.6	4.6	11.6	32.9
Local market (total)	6.6	8.4	10.9	12.0	15.0
TSUS 740.10 (precious metal jewelry)				7.3	9.3
TSUS 740.70 (chain)				5.7	5.7

TABLE 1-3.—ISRAEL'S EXPORT OF GOLD JEWELRY, 1974-78, BY COUNTRIES OF DESTINATION

(In thousands of dollars)

	1974	1975	1976	1977	1978
Total.....	2,193	2,827	7,338	17,684	39,765
United States.....		1,505	5,141	14,340	35,786
Switzerland.....		164	602	966	877
Germany, Federal Republic of.....		455	506	413	864
United Kingdom.....		117	179	307	543
Other.....		586	910	1,658	1,915

TABLE 1-4.—ISRAEL'S FORECAST OF GOLD JEWELRY PRODUCTION, 1979-83

(In millions of dollars, at 1978 prices)

	1979	1980	1981	1982	1983
Total production.....	71.5	98.0	130.0	172.0	204.0
Export (total).....	55.0	80.0	110.0	150.0	180.0
TSUS 740.10 (precious metal jewelry).....	9.5	13.0	20.0	40.0	60.0
TSUS 740.70 (chain).....	45.5	67.0	90.0	110.0	120.0

DEPARTMENT OF COMMERCE,

Tel Aviv.

From : Ambassy, Tel Aviv.
 To : Ruehde/USDOC, Washington, D.C.
 Subject : Licensing of jewelry.
 Ref : USDOC 01103.

1. Ministry of industry, trade and tourism (I.T.T.) informs embassy that import licenses for gold and silver jewelry have not been discontinued. However, issuance of licenses has been curtailed due to current unprofitability of imports. Licenses are issued on merits, on case by case basis.

2. Embassy queried Azrielart and Company on situation. According to Azrielart, it is now almost impossible to obtain import license for jewelry regardless of source. Azrielart states that it is GOI's policy to protect local infant industries which are currently undergoing great difficulties. He ascribes these difficulties to high price of gold and credit restrictions imposed by GOI.

Lewis.

BT

THE U.S. TRADE REPRESENTATIVE,

Washington, D.C.

Hon. SAMUEL I. HAYAKAWA,
 U.S. Senate, Washington, D.C.

DEAR SENATOR HAYAKAWA: Thank you for your letter of February 4, and for forwarding the letter from Mr. George Frankovich, Vice President of the Manufacturing Jewelers and Silversmiths of America, Inc. Mr. Frankovich wrote in opposition to the petition of the Israel Export Institute to have gold jewelry (TSUS 740.10) reclassified on the list of products eligible to receive duty-free treatment under the U.S. Generalized System of Preference (GSP).

The Interagency Trade Policy Staff Committee (TPSC) recommended to the President that five new tariff classifications be created from existing TSUS Item 740.10. These new classifications comprise three styles of chain, almost wholly of gold: rope-style necklaces (TSUS 740.11), mixed link-style necklaces (TSUS 740.12), and other style necklaces (TSUS 740.13); as well as gold jewelry other than necklaces (TSUS 740.14) and jewelry whose chief value is other than of precious metal (TSUS 740.15). The President implemented this recommendation, to be effective March 31, 1981, in Executive Order 12204 of March 27, 1980. The Executive Order was published in the Federal Register on March 28, 1980.

In formulating this recommendation, the GSP Subcommittee and the TPSC took into account testimony on the request presented at public hearings in

September 1979, probable economic effects advice from the U.S. International Trade Commission and background studies prepared by the TIPSU member agencies. Consideration was also given to the health of the domestic industry and to import trends in the TSUS Item since 1976, when the GSP program first went into effect. A review of this information indicates that developed countries supply a majority of the imports in this category and, moreover, that developed countries have increased their share of total imports in TSUS 740.10 in each of those years. At the same time that the developing countries' share of total imports in the category has been declining, developed countries have been able to increase their shipments more than twice as fast as all GSP beneficiary developing countries combined. Israel's shipments of jewelry in TSUS 740.10 accounted for less than 2 percent of estimated domestic production of these items in 1979. Total GSP duty free imports in 1979 were approximately 10 percent of all U.S. imports in the category, with duty free shipments from Israel accounting for about 5 percent of total U.S. imports under TSUS 740.10.

I appreciate your informing this Office of Mr. Frankovich's concerns regarding the petition of the Israel Export Institute to have gold jewelry reclassified on the list of products eligible for GSP treatment. If your staff would like to discuss this matter in greater detail, they should feel free to contact Mrs. Melissa Coyle, Assistant Director of the GSP Subcommittee (305-6071).

Sincerely,

REUBEN OTD. ASKEW.

Mr. FRENZEL. The next witness, Mr. Peter Ginman, is of the United Nations Conference on Trade Development, on behalf of the UNCTAD Secretary General.

Gentlemen, your statement will be accepted for the record and you may proceed as you wish.

**STATEMENT OF PETER JOHN GINMAN, OFFICER-IN-CHARGE,
EXPORT POLICY, COUNTRY AND SECTORAL STUDIES SECTION,
MANUFACTURERS DIVISION, UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT, ON BEHALF OF THE SECRETARY
GENERAL OF UNCTAD**

Mr. GINMAN. On behalf of the Secretary General of UNCTAD, I want to express our appreciation for the opportunity to participate in these hearings.

Since its inception in 1964, UNCTAD has played an instrumental role in negotiations leading to the introduction of the GSP. UNCTAD, through its Special Committee on Preferences has the overall responsibility for conducting annual reviews on the operation and trade effects of the GSP for all schemes included in the system. The deliberations on the GSP in UNCTAD have promoted, in a concrete manner, the trade and economic cooperation between all groups of countries in the UNCTAD context.

Although falling short of meeting the wishes of the developing countries, the improvements incorporated in the 1980 U.S. GSP program are, in our view, significant. These improvements will prove beneficial not only to the beneficiary countries, but also to the United States. They will allow the developing countries to export more products to the United States and thereby earn the foreign exchange required to finance their increasing imports of American products which are crucial to their economic development. The beneficiaries of the U.S. GSP program have and continue to import more products from the United States than they currently export, which contributes con-

siderably to growth in the American economy by expanding employment and income. The developing countries have become and continue to be major trading partners of the United States.

For example, U.S. exports in a recent year to developing countries were greater than U.S. exports to the EEC, EFTA and Japan, combined. More importantly, U.S. exports to developing countries have expanded at a much faster rate than those to developed-market-economy countries thereby increasing the importance of these developing country markets to the U.S. exporters. For these trends to continue, the developing countries will require freer access to the U.S. market. Although the U.S. GSP program is one instrument which provides for more liberal access, U.S. GSP imports are only a fraction of U.S. total imports from developing countries.

Beyond that, the U.S. program includes safeguards in the form of competitive-need limitations which have effectively excluded about one-third of the GSP eligible products from major suppliers. We should also not forget that, by and large, all imports of sensitive products have been excluded, ab initio, from the U.S. GSP by law and, therefore, offer no threat to domestic industry and employment. It is UNCTAD's opinion that the U.S. GSP program could be considerably liberalized without threatening the domestic economy and in the process produce advantages and mutual benefits for both the United States and its developing country trading partners.

As far as the President's report on the 5-year review of the U.S. GSP program is concerned, we find that, although it primarily reflects U.S. interests rather than those of the beneficiary countries, in our view it is comprehensive and factual.

On the graduation issue, the report recognized that, despite graduation of major beneficiaries as a result of the competitive-need provision, lesser developed beneficiaries have not been able to increase their share of benefits under the scheme. In order to effectively increase this share, the administration intends to introduce two measures.

First: A special effort will be made to add to the coverage of the scheme products of export interest to low income beneficiaries, including handicraft items.

Second: The President's authority to "withdraw, suspend or limit duty-free treatment for products" and to add products to the scheme will be used to limit benefits in products where the more developed beneficiaries have demonstrated competitiveness. This last measure is inconsistent with the finding of the report that competitive-need limits had not resulted in an increased share of low-income beneficiaries.

The United States, however, seems determined to pursue "the continued graduation of more advanced developing countries from GSP benefits in products where they have demonstrated competitiveness."

Thus, in addition to a graduation policy based on "nondiscriminatory" criteria, that is, absolute dollar limit and the 50-percent rule, the President will have discretionary power to graduate certain countries. New "arbitrary and discriminatory" criteria will therefore be injected in the scheme. Presumably, however, the United States will take into account such variables as per capita income, production of manufactures, balance of payments position, et cetera.

This issue is of most serious concern for developing countries for a number of reasons.

First: The idea is contrary to the principle of nondiscrimination upon which the system is based and agreed to by all preference-giving countries, including the United States.

Second: Developing countries are afraid that discrimination might be introduced, not only for reasons of protection of the U.S. economy, but for other arbitrary, including political, reasons.

Third: Despite these agreed-upon principles, the U.S. program already has a built-in mechanism for graduation in the form of the competitive-need criteria. As previously mentioned more than one-third of the eligible products from individual countries are effectively excluded by these criteria. In our view, the competitive-need criteria have been very effective in that they have, in fact, allowed for the exclusion of any country for any product that has demonstrated its competitiveness as defined by the United States.

In a number of cases these actions did not have the effect of protecting U.S. domestic interests or of assisting other developing countries at lower stages of development in obtaining additional benefits. In our view, any further attempts at expanding the principle of graduation in the context of the GSP would not only reduce the benefits of the program for both the United States and developing countries, but would render it irrelevant in the light of the objectives of the GSP, that is, it would unnecessarily reduce the level of mutual trade benefits and economic cooperation.

This point becomes all the more important in the light of the outcome of the tariff reductions on an MFN basis resulting from the recently concluded multilateral trade negotiations. As pointed out in the President's report:

GSP products are less sensitive than many U.S. imports and their duties will be reduced by an average of 50 percent as a result of the MTN. These reductions are already being phased in and eventually will yield a GSP tariff preference of just over 4.5 percent. As these tariff cuts are implemented, the preferences beneficiaries enjoy over other suppliers will narrow. The tariffs on a number of GSP products already were lowered to zero, effective January 1980.

This means that the GSP margins will be halved and thereby the competitive advantages they currently provide to exports of developing countries to the U.S. market will be gradually lost.

Additionally, a recent UNCTAD study corroborates the above finding in the President's report for GSP products and furthermore estimates that the tariff cuts on non-GSP covered products will not offer sufficient compensation to offset the erosion of GSP margins. Given the outcome of the MTN as it will affect the GSP, the U.S. GSP program would have to be substantially improved, if only to maintain its present level of advantages to developing countries. Any further restrictive actions in the form of graduation or other measures can only add to a further deterioration of the situation.

In this context, distinction should be made between positive and negative graduation. What we have just discussed is an example of what we, in UNCTAD, call negative graduation. If the concept of graduation is to be pursued, we feel a strong case can be made for what

is known as positive graduation. The developing countries, themselves, recognize the differences in their levels of economic development and that a large number of these countries fall into the category of least developed of the developing countries, including landlocked and island countries.

Despite the importance of the principle of nondiscrimination underlying the GSP, the developing countries have accepted that special measures should be taken in favor of these less advantaged developing countries. This concept of positive graduation has, in fact, been implemented by other preference-giving countries such as Norway, the EEC, Finland, and Japan. Likewise, certain socialist countries of Eastern Europe, such as Hungary and Bulgaria, have introduced special measures in favor of the least developed of the developing countries in their GSP schemes.

The intention of the United States to make special efforts to add to the coverage of the program products of export interest to low-income beneficiaries, including handicraft items, is an example of such positive graduation which could provide effective benefits to the less developed of the developing countries.

Thank you for this opportunity to express our views. In this connection, I am willing to attempt to answer questions you may wish to put. I have taken more than the allotted 5 minutes. I wonder if I can speak not as an UNCTAD official, but as a U.S. citizen.

Mr. FRENZEL. If you speak briefly.

Mr. GINMAN. I have been working on the GSP as a whole for 7 years, not just on the American system.

As an American citizen I found after having traveled to over 30 developing countries in the context of my official work and doing technical assistance on the GSP both prior to and after the implementation of the U.S. scheme that the U.S. GSP program is extremely well received and considered very important even when the value of U.S. preferential imports from some of these countries is small.

On the question of graduation, graduation is a broad issue and I think it would be a shame if the U.S. system was to be eroded by graduation, particularly given its importance as the only, so far as I know, organized program for providing benefits to developing countries. Graduation, if it must be pursued, can be pursued in other multilateral or bilateral contexts, rather than to erode this very important system which is slowly dying out anyway as a result of the tariff reductions in the MTN.

Mr. FRENZEL. Your testimony does come down in favor of positive graduation.

Mr. GINMAN. Positively.

Mr. FRENZEL. We have a little problem. As you heard the administration testify, much of this is going to ADC's, or however you would designate them. I think your testimony gives us some good clues as to how we might do a better job.

Thank you very much.

The next witness is Mr. David Serko of Serko & Simon of New York, the last witness to testify on GSP.

If he is not here, Cheryl Parham.

**STATEMENT OF DAVID SERKO, SERKO & SIMON, NEW YORK, N.Y.,
AS PRESENTED BY CHERYL PARHAM**

Ms. PARHAM. I am his associate and I will give his testimony.

We want to thank the committee for giving us the opportunity to speak this afternoon.

Since the inception of general preferences, our firm has appeared in product reviews representing a number of companies who import and utilize the GSP program so we feel we are in a unique position this afternoon to support the GSP.

We would like to submit our statement for the record and I will summarize the main points.

Mr. FRENZEL. Thank you.

Your statement will be accepted for the record.

Ms. PARHAM. First, with respect to graduation, we recognize the majority of benefits are currently going to a few number of countries. We also recognize that there is considerable competition between the U.S. industries and the industries in these more developed developing countries, and we also recognize that the LDC's are beginning to acknowledge the fact they don't need special and deferential treatment as much as they did in one point and, indeed, in the agreement reached by the "framework" group in the multilateral trade negotiations, the developing countries have decided special and deferential treatment can be given to them, which is reflective of their trade and development needs.

However, we believe changing the beneficiary status of countries at this point in the system is inappropriate. Since January 3, 1975, the world has been on notice that the U.S. GSP would be in effect for 10 years, until 1985. Based on the stated duration of the program, the self-election principle which determined participation in the GSP in the first instance and the limited application of the specific exclusions in the Trade Act of 1974, many countries and private citizens and firms have considered the applicability of GSP benefits in their investment and development deliberations and decisions. They have acted in reliance on the expectation of a stable, 10-year program and we feel that to introduce changes at this point, based on a change in policy with regard to graduation, would be to change the rules in the middle of the game, which would violate what we consider a sacred tenet of the U.S. legal system and fairplay and substantial justice.

In view of the good faith reliance placed in the U.S. law and the U.S. stated policy, we believe that a change in the nondiscrimination policy regarding GSP beneficiaries should not be introduced at this point in order to achieve graduation of countries from GSP beneficiary status prior to January 3, 1985.

In the event that the administration and this Congress decide that a program of graduation is necessary and such a program is adopted, we believe that procedural safeguards must be established.

These safeguards would assure that the interests of the beneficiary developing countries affected and the rights of U.S. citizens participating in the program are given full consideration. It is imperative the U.S. Government establish these criteria to be considered and these criteria be published prior to the application.

We would also like an opportunity for public comment on those criteria. Then, once a determination is made to graduate a country, the names of these countries should be published and, again, opportunity for public comments should be allowed.

Finally, a final determination should be published at least 12 months prior to the effective date of any change. This period of advance notice is necessary so that the country and the industries affected by graduation—and I might add the U.S. citizens who are basing long-term contracts on those GSP considerations—would have sufficient time to make any adjustments which might be necessary.

To reiterate, it is our belief at present that implementation of a concept of graduation is not appropriate at this time. Too many persons have relied on U.S. representations regarding the program to change our position now.

However, if any changes are contemplated during the next 5 years, they must include appropriate safeguards, such as those that I have just outlined, for all parties involved.

Second, with regard to the competitive need provisions, we believe the dollar limitation is an excellent idea, especially since it has sort of a built-in graduation principle on a product-by-product basis. We feel this is fair and it also makes the benefits available to other countries that don't have quite a developing industry in any given product.

However, with regard to the 50 percent rule, we suggest that while items which have exceeded 50 percent of the total U.S. imports and which also exceed the \$1 million de minimis limitations should be reviewed and that review should be mandatory, their removal should not necessarily be mandatory.

I think if strict criteria are delineated in which items which exceed the 50-percent limitation should be removed and in what instances they can maintain their GSP eligibility, we would find that continued duty-free treatment for that kind of merchandise would be of benefit both to the U.S. consumers and the exporting country, but yet would cause no harm to existing U.S. industry or inhibit the growth of competing industry in the United States or other developing countries.

First: We recommend that all items except those designated as import-sensitive be included in the GSP program for the least developed developing countries. We note that the Trade Agreements Act of 1979 includes a provision which allows the tariff negotiations negotiated in the MTN to take effect immediately for the least developed developing countries. We feel the United States can and should go further in granting total GSP to these products.

The loss in revenue, the competitive advantage, the loss in revenue to the United States or any other type of disadvantage to the United States is far, far outweighed by the advantage that it would give to the least developed developing countries.

We also strongly recommend that projects developed and funded by the U.S. Agency for International Development for development and industrialization in the lesser countries be planned and developed with a view toward utilizing the benefits provided by the GSP.

Specifically, we recommend that project officers involved in these AID programs identify sectors and products in which an LDC can compete profitably in the world market.

I would like to emphasize that the products developed by these industries must not be import-sensitive. I think it is rather cruel to develop an industry within a country and remove the benefits.

We feel real efforts should be made to channel foreign aid and grants in loans into these areas that have real and significant benefit in the economic development of these countries.

These are just a few suggestions to improve what we have considered to be an already very, very good program.

I thank you again for the opportunity to present these views and I am ready to answer any questions the committee may have.

[The prepared statement follows:]

STATEMENT OF DAVID SERKO, SERKO AND SIMON, NEW YORK, N.Y.

INTRODUCTION

Having had the opportunity to appear before the Trade Policy Staff Committee's GSP Subcommittee with regard to petitions to add and to delete items from the GSP list of eligible items, our firm has developed a strong feeling towards the overall operation of the program. Thus we welcome the opportunity to participate in the five year review of the program, and we appreciate the opportunity afforded us by the Subcommittee on Trade of the Committee on Ways and Means to make our views known to our elected representatives.

We hope that our comments will be viewed with the understanding that our firm strongly supports the concept of a Generalized System of Preferences and looks forward to a continuation of this country's commitment in this area.

POINT I

Graduation of the more advanced developing countries

Since its inception, the U.S. GSP has been criticized by United States industry and labor representatives because it affords preferential treatment to products of countries whose industrial sectors are as advanced, and in some cases more advanced, than competing industrial sectors in the United States. It has been pointed out on numerous occasions that United States industries which feel the impact of GSP imports the most are more mature than their counterparts in developing countries and do not have the capability of moving readily from the production of one style to another, one specification to another, or one product to another as may be the case in a similar developing country industry.

There have been a number of recommendations that the more developed of the developing countries not be granted GSP benefits. Usually these recommendations for graduation of countries from the program are aimed against countries such as Taiwan, Korea, Mexico and Brazil which have highly diversified and highly competitive industrial sectors, not just in the more basic industries such as footwear and textiles, which are of course excluded from GSP, but also in areas such as the building of floating dry docks and oil rig platforms, as well as the manufacture of radio receivers and other electronic components and products and a variety of consumer goods.

These critics have pointed out that the competitive need limits do not always work to graduate the specific industrial sectors which are the most competitive. This is due in some instances to a low total volume of the United States import market, i.e. a country can export competitive amounts of a product and still have exports less than the statutory monetary ceiling to the United States. In other cases, GSP imports, while very substantial, may not represent 50 percent of total United States imports.

The President does have the authority to designate only certain countries as eligible for GSP benefits and thereby grant GSP beneficiary status on a discriminatory basis. The Trade Act of 1974 states that, in determining whether to designate a country as a beneficiary under the program, the President is to

take into account, among other things, "The level of economic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he deems appropriate." Section 502(c)(2).

It has been United States policy to grant preferences under GSP without discrimination. Notwithstanding this policy of nondiscrimination, the President does have the authority to discriminate among LDC's and to terminate a country's eligibility under the system.

From the inception of the program, the President has terminated the beneficiary status of or excluded from receiving such status only those countries which fall within the ambit of one of the exclusions set forth in Section 502(b) of the Trade Act. A country comes within these exclusions if it (a) is a Communist country and meets certain other conditions, (b) is a member of the Organization of Petroleum Export Countries and did not enter a bilateral agreement with the United States before January 1, 1980, (c) affords preferential treatment to products of other developed countries other than the United States, (d) fails to meet other criteria regarding nationalization and expropriation, (e) fails to cooperate with United States officials in preventing drug trade or (g) fails to recognize arbitral awards in favor of the United States. The Presidential authority to not designate or to terminate designation as a beneficiary developing country has not been used to graduate a country from the GSP program on the basis of its advanced level of economic development.

We recognize that the developing countries are now beginning to acknowledge in international fora that they should receive preferential, or "special and differential", treatment more reflective of their individual economic needs. In the agreement reached by the "Framework" Group in the Multilateral Trade Negotiations, the developing countries agreed that developed countries' preferential treatment for developing countries should be "designed and, if necessary, modified to respond positively to the development, financial and trade needs of developing countries."

We believe that changing the beneficiary status of countries at this point is inappropriate. Since January 3, 1975, the world has been on notice that the United States GSP would be in effect for ten years. Based on the stated duration of the program, the self-election principal which determined participation in the GSP in the first instance and the limited application of the specific exclusions, many countries and private citizens and firms have considered the applicability of GSP benefits in their investment and development deliberations and decisions. They have acted in reliance on the expectation of a stable, ten-year program. To introduce changes at this point, based on a change in policy with regard to graduation, would be a change of rules in the middle of the game which would violate our sense of "fair play and substantial justice," a sacred tenet of the United States legal system. In view of the good faith reliance placed in the United States law and the United States stated policy, we believe that a change in the nondiscrimination policy regarding GSP beneficiaries should not be introduced at this point in order to achieve graduation of countries from GSP beneficiary status prior to January 3, 1985.

In the event that a program of graduation is eventually adopted, we believe that procedural safeguards must be established. Such safeguards would ensure that the interests of the BDC's affected and the rights of United States citizens participating in the program are given full consideration. It is imperative that the United States Government establish the criteria to be considered in determining whether a country should be considered for graduation. These criteria should be published prior to their application. There must be an opportunity for public comment regarding the criteria. Once a determination is made to graduate a country, the name of the country should be published and opportunity for comment be allowed. A final determination should be published at least 12 months prior to the effective date of the change. This period of advance notice is necessary so that the country and the industries affected by graduation would have sufficient time to make any adjustments which may be necessary.

It is our belief that implementation of a concept of graduation is not appropriate at this time. Too many persons have relied on U.S. representations regarding the program to change our position now. However, if any changes are contemplated during the next five years, they must include appropriate safeguards, such as those outlined above, for all parties involved.

Competitive need provisions

Section 504 (c) (1) (A) of the Trade Act of 1974 provides for the removal of a product for a country if that country's exports of the product to the United States exceeds an adjusted dollar value. This competitive need dollar limitation serves as a form of "graduation" on a product-by-product basis. The utilization of a dollar limit serves to allow developing countries to expand their facilities with regard to a particular industry to the point where the industry will be strong enough to stand on its own, even with the imposition of duty. While we have discussed the issue of "graduation" elsewhere, at this juncture it is sufficient to say that competitive need limitations based on actual dollar imports of merchandise from particular developing countries is an appropriate means of meeting our obligations to the BDC's in general and the LDDC's in particular.

We believe, however, that the "50 percent rule" provided for in Section 504 (c) (1) (B) sometimes operates to hamper the purposes of the program. As was recognized by the amendments to the Trade Agreement Act of 1979, the competitive need limitations with regard to quantities exported to the United States were not working as well as desired. Articles for which imports consisted of figures in only the thousands of dollars were denied GSP benefits because they represented 100 percent of total imports. By amending this provision to include a de minimus rule of \$1 million adjusted annually, the Congress has shown its recognition of this problem. However, this may not be enough.

This new provision, while less restrictive than its predecessor provision, may still serve to inhibit the development of industry in the developing countries. For some industries, exports of \$1 million dollars worth of a product represents a very small quantity. Where an item can only compete because of the preferential treatment afforded it as duty-free merchandise, the ability to export such a small quantity may not be an appropriate incentive for the development of the industry.

We suggest that the Congress consider an additional change in this provision to provide for broader discretion on the part of the President in the removal of products which have exceeded the 50 percent competitive need limitation. Rather than set an arbitrary dollar amount as representative of when the competitive need mechanism should go into effect, the President should be permitted to use his discretion based on strict criteria to be included in the law and regulations governing such a change.

Among the items which the President should consider are the following:

1. The effect of continued duty-free treatment on existing United States industry;
2. The effect of continued duty-free treatment on the establishment of new industries both in the United States and other competing BDC's;
3. The effect of continued duty-free treatment on the United States consumer;
4. The effect of continued duty-free treatment on the United States balance of payment with regard to the country of export; and
5. The effect of duty-free treatment on the rate of inflation in the United States.

What we are suggesting is that, while review of items that have exceeded 50 percent of total U.S. imports should be mandatory, their removal should not be. Oftentimes, the application of the criteria enumerated above would result in a finding that continued duty-free treatment for such merchandise would be of benefit for both the United States consumer and the exporting country and yet would cause no harm to existing United States industry nor inhibit the growth of competing industry in either the United States or other developing countries.

From the numerous petitions to add and delete products which have been heard over the past few years, it has become quite clear that a percentage is meaningless in a vacuum. To arbitrarily choose a figure of 50 percent of total imports as indicative of strength or development of a particular industry when not taking into account the level of imports involved a meaningless act. Changes must be made which ensure protection for the United States and competing BDC's while at the same time ensure that products which are appropriate to the purposes of the program remain eligible to receive benefits.

POINT III

least developed countries

In order to make the GSP more responsive to the special needs of the least developed developing countries, we suggest that certain policy changes be made in order to broaden the benefits of the LDDC's under the GSP. It is important to keep in mind that graduation of the more developed developing countries will also benefit the least developed countries since they would gain an additional edge in their competition with their more advanced counterparts. The changes which we recommend would not, however, prejudice the benefits which all of the beneficiary countries, including the more advanced ones, currently receive.

First, we recommend that all items, except those designed as import sensitive, be included in the GSP program for the least developed developing countries. We note that the Trade Agreements Act of 1979 includes a provision which allows for tariff reductions negotiated in the MTN for such products to take effect immediately for the least developed developing countries. However, we feel that the United States can take the further step of granting total preferential treatment, i.e. duty-free treatment for all United States imports, for products of the LDDC's.

In reviewing 1978 United States import statistics of trade from these specific countries, it is clear that while these countries will reap some benefit from such an action, the United States should suffer no adverse consequences. In 1978, the twenty-seven countries designated by the United Nations as the least developed developing countries¹ accounted for \$691 million or 4.0 percent of total United States imports. Of that amount \$504.7 million entered duty-free, including \$29.3 million of imports which entered duty-free under the GSP. Only approximately \$29.6 million of imports from the least developed countries were dutiable imports.²

The United States will not suffer any significant loss of revenue. Assuming that dutiable products from these specific countries were dutiable at the rate of 10 percent, the total duties collected on these items would be \$12.06 million. This is indeed insignificant—only 1.8 percent—compared to the total amount of duties collected in 1978.

We also strongly recommend that projects developed and funded by the United States Agency for International Development be planned and developed with a view towards utilizing benefits provided by the GSP. Specifically, AID project officers should identify sectors and/or products in which an LDDC can compete profitably in the world market. Every effort should be made to develop production facilities for which the technology and human resources are available in the country. The product must not be import sensitive. Real effort should be made to channel AID grants and other grants and loans earmarked for development into these areas which could have significant and real benefits in the economic development of these countries.

These are only a few suggestions of how the GSP program can be utilized to more specifically respond to the special needs of the least developed developing countries. One of the key factors, however, in the economic development of these countries is a carefully conceived approach to development based on both the mineral and other natural resources as well as the human resources available. We urge the United States Government to emphasize and direct its efforts towards the education of officials in the LDDC's and of United States industry in order to better coordinate efforts to utilize the GSP to the best advantage of the LDDC's. In this way, we believe that the United States can more beneficially fulfill the stated purpose of the GSP, i.e., to aid in the economic development of the developing countries.

¹ These include: Afghanistan, Bangladesh, Benin, Bhutan, Botswana, Burundi, Cape Verde, Central African Empire, Chad, Comoros, Ethiopia, Gambia, Guinea, Haiti, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Somalia, Sudan, Western Samoa, Republic of Tanzania, Upper Volta, and Republic of Yemen (Sana).

² Statistics Sources: Bureau of the Census, IM146, FT990, GSP statistics. The total imports figures and the GSP statistics are precise. The dutiable and duty-free import statistics have been rounded and imports of less than 100,000 are not included, thus accounting for the discrepancy between the total import figure and the sum of dutiable and duty-free imports.

CONCLUSION

We wish to again thank the Subcommittee on Trade for the opportunity to express our views. We hope that our comments will be helpful in formulating changes in the program which will aid its operation.

We would be happy to answer any questions which the Committee may have.

Mr. FRENZEL. The subcommittee thanks you, too, Ms. Parham, for your very large list of suggestions as to how the program might be improved.

[At this point the subcommittee moved to consideration of miscellaneous tariff bills, and at 5:05 p.m., the subcommittee adjourned.]

[The following was submitted for the record:]

JOINT STATEMENT OF THE CALIFORNIA-ARIZONA CITRUS LEAGUE, WILLIAM K. QUARLES, JR.; THE CALIFORNIA ALMOND GROWERS EXCHANGE, STEVEN W. EASTER, AND THE CALIFORNIA AVOCADO COMMISSION, RALPH M. PINKERTON

INTRODUCTION

This statement is submitted on behalf of the California-Arizona citrus industry and the California almond and avocado industries.

The California-Arizona Citrus League located in Los Angeles, California, is composed of farmer cooperatives and independent shippers who handle over 85 percent of the fresh citrus fruit produced in Arizona and California. Our member-growers produce oranges, lemons, grapefruit, tangerines and limes. This fruit is marketed in both fresh and processed forms.

The California Almond Growers Exchange is an agricultural cooperative located in Sacramento, California. The Exchange has 4,700 member-growers who produce approximately 60 percent of the almonds grown in California. All of the almonds produced commercially in the United States are produced in California. The Exchange sells the almonds of its members throughout the United States and in nearly every country of the world.

The California Avocado Commission of Newport Beach, California, represents all producers and marketers of avocados in the state of California. California produces approximately 80 percent of the avocados grown in the United States.

SUMMARY

The report of the President on the Generalized System of Preferences of April 17, 1980 is the most comprehensive and rational report to Congress on this subject that is known to us. The report itself acknowledges both successes and failures of the GSP program, and suggests possible improvements.

In reviewing the status of the GSP program, we urge Congress to consider (1) the need to develop a specific "graduation" policy, (2) the importance of making the U.S. program comparable with the system of other countries and (3) the sensitivity of U.S. agricultural products to any such program.

I. The development of a specific "graduation" policy

The inclusion of a "graduation" principle in GSP seems to be universally accepted; however, we do not believe sufficient progress is being made to develop such a policy. Defining certain developing countries as least developed implies that some criteria already exists insofar as graduation is concerned. However, to the best of our knowledge only a very subjective test is implemented which involves the level of a country's economic development, including factors such as per capita gross national product and living standard.

It should be noted that the ten countries benefiting most greatly from our GSP program account for approximately 83 percent of total imports. Concentration of this magnitude suggests that some of the less developed countries have now graduated.

The concept of differential treatment of GSP eligibles has been established. The longer that graduation criteria remains unspecified, the greater the likelihood that graduation will never be realized. This delay will have the effect of defeating the intent and purpose of GSP. It also creates great uncertainty among eligible and noneligible countries, both of which have difficulty in developing long range export/import plans without the ability to measure the extent of GSP participation.

II. Failure to properly consider comparability of U.S. program in relation to systems of other countries

The President's report contains a remark to the effect that all commenting countries concurred that the duty free treatment of the United States system was preferable to the systems of the European Community and Japan. This provides us with a significant warning that the realization of equitable GSP procedures is imperative. Section 1 of Title 5 of the Trade Act of 1974 authorizing preference requires the President to have due regard for comparable GSP actions by other major developed countries. We believe that the U.S. Government has been remiss in this regard, thus creating situations where trade diversion takes place. The following table is illustrative of the relative attractiveness of the United States, European Community and Japanese markets to GSP eligible countries.

(Dollar amounts in millions)

Country	Population (million)	Private consumption	Gross domestic product
United States.....	217	\$1,210,000	\$1,881,700
European Community—9.....	259	1,015,516	1,714,327
Japan.....	114	403,692	697,717

Source: IMF Yearbook, 1979, data for calendar year 1977.

To the extent that the United States market is the most attractive in terms of economics and in ease of entry under GSP, undesirable trade diversion will be inevitable if the respective GSP programs are not brought into balance. It is for this reason that we strongly endorse the report's suggestion that the United States intends to consult with other GSP donor countries regarding implementation of the activity. This should be of urgent priority.

III. Importance of remaining alert to GSP's impact on agriculture

As between industry and agriculture in the United States, the latter fares less well from the GSP program than does the former. The value of GSP duty free imports of agricultural products in 1976, 1977, and 1978 amounted to from 20 to 23 percent of the total value of imports of such products. Comparable percentages for industry products were 11 to 12 percent or about half that for agriculture.

It is important that Congress continue to monitor this program in terms of its impact on agriculture, an inherently import sensitive industry. This sensitivity has long been recognized in connection with the GSP program. Upon submission of the 1974 Trade Act to Congress the President said: " * * * GSP would allow duty-free treatment for a broad range of manufactured and semi-manufactured products and for a *selected list* of agricultural and primary products." [*Italic added.*] The reason for that distinction was that developing countries are generally competitive in developed country markets with respect to most agricultural and primary products.

Close scrutiny of GSP application to agricultural products is particularly important at a time when two of the most important markets for agriculture have restrictive import policies, the European Community and Japan. Citrus producers in California and Arizona and almond and avocado producers in California have to one degree or another been damaged by quotas, excessive duties, and discriminatory duties imposed by Japan, the European Community and other major export markets. World trade can not take place in a vacuum and it is particularly important for agricultural producers that a sense of balance exist with respect to the U.S. system of GSP and agricultural import policies of our major trading partners.

STATEMENT OF THE FERROALLOYS ASSOCIATION

In response to the Committee's invitation and notice, The Ferroalloys Association presents this written statement to express its views on the operation of the Generalized System of Preferences. The Association's remarks focus upon two aspects of the operation of GSP.

The principal focus of the Association's statement is to show why, as discussed in Part 1, below, graduation of certain developing countries is clearly warranted. As both the Ways and Means Committee and the Senate Finance Committee have

recognized, there is now the need to provide for graduation of more advanced developing countries which no longer require the stimulus of GSP. (House Report No. 96-317, p. 202; Senate Report No. 96-249, p. 273.)

The entire benefit which GSP has bestowed upon ferroalloy producers in developing countries—and that benefit has been massive—has been shared by four of the more advanced GSP beneficiaries. All of the other GSP countries as a group—including, for example, India, Gabon and Korea—have actually seen their total import tonnages decline since the beginning of GSP. All four of these more advanced ferroalloy GSP beneficiaries have ferroalloy plants which are efficient and have competitive advantages that make the extension of GSP to them an unnecessary windfall; and the case for graduation of Brazil and Yugoslavia, each of which is a major, established presence in world ferroalloy markets, is especially compelling.

While the Association welcomes the prospect of potential administrative action for selective graduation described in the President's recent report to the Congress, it believes that a broader approach to graduation of entire countries, such as Brazil and Yugoslavia, is required. And, its past experience with the enforcement of the GSP statute imbues it with skepticism about just how many "selective graduation" petitions one can reasonably expect to be granted by the Administration.

To be sure, a vigorous graduation program would probably adequately remedy the considerable injury which GSP imports from these big countries have wreaked and continue to wreak upon the the American ferroalloy industry. However, unless and until the STR establishes and pursues a vigorous graduation program, the industry must continue to concern itself with the enforcement of those provisions of title V of the Trade Act of 1974 designed by Congress to protect vulnerable U.S. industries from the operation of GSP.

In this regard, as discussed in Part 2 below, the Association respectfully submits that those in STR and others in the Administration who have enforced GSP since its creation have, at least with respect to ferroalloys, ignored these boundaries set upon GSP by Title V. The administrators of the program, in effect, have eviscerated the meaning of the limiting words—especially the crucial phrase "import-sensitive in the context of GSP"—which Congress imposed in the Act upon the President's GSP authority. Unless the problem is addressed by a forceful graduation policy, those who administer GSP must be made to do what they have heretofore not done—to adhere to these legal limitations.

THE FERROALLOY INDUSTRY

Ferroalloys and related metals are additive materials essential to the production of steel, iron and aluminum products. As such, the ferroalloy industry is critically important for our nation's economy and defense. For example, chromium is essential to the production of many alloy steels, all stainless steels and almost all specialty steels and superalloys. No steel at all can be made without the use of a manganese ferroalloy; and, silicon is a basic necessity for the production of iron and aluminum castings, many special steels and all silicone chemicals. In recognition of their importance, our strategic and critical materials stockpile contains substantial quantities of chromium and manganese ferroalloys and the ores required for their production.

The Executive Branch has extended GSP treatment to seven specific ferroalloy and related metal products. These are the four manganese family products of low carbon ferromanganese, medium carbon ferromanganese, high carbon ferromanganese and silicomanganese (also known as ferrosilicon manganese); also chromium metal, 60 to 80 percent ferrosilicon and silicon metal having a purity between 99 percent and 99.7 percent. And, new petitions by foreign governments to add other ferroalloy and related metal products to GSP are regularly made.

The producers of these products are represented by The Ferroalloys Association, whose sixteen members account for virtually all of the American production of chromium, manganese and silicon ferroalloys, metals and related products. These companies are: Autlan Metals International Co.; Chemetals Corporation; Chromium Mining & Smelting Corp.; Foote Mineral Company; Hanna Mining Company; Interlake, Inc. (Globe Metallurgical Division); International Minerals & Chemicals (TAC Alloys Division); Kaweck-Beryco Industries; Kerr-McGee Chemical Company; Ohio Ferro-Alloys Corporation; Philipp Bros., Division of Engelhard Minerals & Chemicals Corp.; Roane Electric Furnace Company; Satralloy, Inc.; SKW Alloys, Inc.; Shieldalloy Corporation and Union Carbide Corporation.

The need to graduate certain highly developed ferroalloy producing countries from GSP

Section 501(1) of the Trade Act of 1974 directs the President to consider the effect GSP will have on furthering the economic development of developing countries. The conceptual basis of GSP is that the opportunity to send duty-free exports to developed countries will permit developing nations to get infant industries established and off the ground, without injuring import-sensitive U.S. industries. (See President's Message to Congress of April 10, 1973, transmitting the Administration's draft of what became the Trade Act of 1974, p. 9.) GSP was not intended to be a bonanza for already established industries which happen to be located in developing countries and which had already begun and grown, or which could have been begun and grown without the inducements or benefits of GSP.

Four years of experience with GSP has made clear that its extension to ferroalloy products has not had the "infant industry" effect. Rather, that experience manifests that the result of the extension of GSP to those products has been to provide a windfall to a handful of importing countries with established and competitive ferroalloy industries which in no way required, and do not now require, the assistance of the special treatment afforded by GSP. These GSP countries have expanded, and continue to expand their capacity and production levels, at the expense of U.S. producers whose capacity to produce GSP ferroalloys has remained stagnant and whose production levels, even during times of high demand, have been well below capacity.

Whether or not these countries should properly have been granted GSP treatment for certain ferroalloys when the program began is academic. What is now clear is that, at least with respect to Brazil and Yugoslavia, their ferroalloy industries do not now have any of the characteristics associated with a GSP beneficiary. The countries have well established, competitive and expanding ferroalloy industries which have penetrated U.S. and other world ferroalloy markets with great and sustained success.

Examination of the history of ferroalloy GSP is instructive. Four countries (Brazil, Yugoslavia, Mexico and Portugal) have accounted for the entire increase in GSP imports from the last non-GSP year of 1975 to each of the years 1976, 1977, 1978 and 1979. Although many other GSP countries have exported small amounts of GSP materials to the United States, the imports of those other countries have not benefited one whit from the GSP program. Indeed, ferroalloy imports from other than these four "rich" GSP countries (for example, from countries such as India, Gabon and Korea) had actually declined by 1979 from their pre-GSP levels of 1974 and 1975 and their level during GSP's first year, 1976. While all four of the major GSP ferroalloy producers have large, modern, now well established facilities which have economic advantages in such areas as domestic resources, hydropower, low labor costs and relatively low pollution control costs, the need for graduation is especially evident with respect to Yugoslavia and Brazil.

Both of those countries had a large, ongoing and competitive ferroalloy industry prior to the enactment of the GSP provisions of the Trade Act of 1974. Both had plans for growth and expansion which were underway and which were made without any expectation that their goods could be sold duty free in the United States. Yugoslavia's industry has been competing in world ferroalloy markets successfully for twenty-five years; Brazil's for at least ten years. And, the facilities of both industries are modern, technologically sophisticated, competitive and able to make their own way in the world marketplace without the substantial benefit afforded by GSP.

Both countries have a number of cost advantages in the production of ferroalloys that American producers, no matter how efficient, cannot obtain—which makes the extension of GSP to them truly a superfluity. Both have ferroalloy facilities whose products have competed successfully in world markets without the benefit of GSP. And, GSP has enabled both to make major penetrations of the U.S. market—largely at the expense of U.S. producers, but to a lesser degree at the expense of other importers, including importers from less advanced developing countries. For example, Brazil's GSP-product imports have shot from some 100 tons in the last GSP year of 1975 to over 50,000 tons in each of 1977 and 1978, and to almost 75,000 tons in 1979. And, Yugoslavia's GSP-product imports have leapt from 7,000 tons in 1975 to over 40,000 tons in 1978 and 1979.

In recent years both Yugoslavia and Brazil have brought large new ferroalloy producing facilities on-stream. Brazil's ferroalloy capacity has increased from approximately 200,000 tons in 1973 to about 500,000 tons in 1979 at a rate of some

nineteen percent per year; and, Brazil is still expanding its ferroalloy facilities, with this immense rate of growth expected to continue at least through 1981. Yugoslavia's ferroalloy capacity has increased from approximately 50,000 tons in 1971 to about 200,000 tons in 1978, and, it is also presently increasing its capacity anew.

It is thus clear that the economic state of the Yugoslav and Brazilian ferroalloy industries is such that their ferroalloy industries should promptly be graduated out of GSP. (Indeed, it is quite probable, from what limited information the Association has on general economic conditions in those countries, that those countries should be graduated for the products of many other industries as well and perhaps should be graduated across-the-board.) If ever preferential duties were needed to help Brazil and Yugoslavia's ferroalloy industries, that time has now manifestly passed. To continue to afford ferroalloy GSP to those countries will not further the purposes of GSP; rather it will provide a needless windfall for these two world ferroalloy heavyweights at the expense of an efficient, essential, but fragile, American industry.

While the Association welcomes the prospect held out by the President's report that STR will soon entertain petitions for selective graduation, the Association believes that either graduation legislation or a clear expression to the Administration of a strong Congressional attitude on graduation is essential if graduation is to be ordered where it is appropriate. Both past experience with the enforcement of Title V of the Trade Act of 1974 (discussed in Part 2, below) and the President's report itself give the Association considerable concern that the Administration's approach to selective graduation will satisfy neither the objectives of GSP nor the related contentions of the Congress.

Indeed, the President's report's discussion of graduation bespeaks a considerable reluctance to take unilateral action to remove GSP from a beneficiary country—seeming to regard GSP almost as if it were a permanent grant of a benefit to which these countries somehow are entitled, rather than as a stop-gap measure to permit LDC industries to become competitive. Further, the President's rejection of across-the-board graduation of countries such as Brazil and stated intention of relying totally on specific requests to graduate by products or product sectors is both administratively wasteful and inconsistent with the "infant industry" purposes and present effects of GSP.

2. *The defective administration of GSP*

A proper and vigorous graduation policy would probably redress the serious injury GSP has caused, and continues to cause, the American ferroalloys industry. However, unless there is such a graduation policy—and, thus far, there is no such policy—an industry such as ours must seek relief by showing that it falls within the limitations which Title V sets upon the extension of GSP to, and maintenance of GSP on, specific products.

The principal limitations are (i) the injunction of Section 503(c)(1)(G) that an article which is import-sensitive in the context of GSP not be included in the program; and (ii) the limitation of Section 501(2) which requires that in considering whether a product should be granted duty-free GSP status, the President must have due regard for . . . the anticipated impact of such action on United States producers of like or directly competitive products. It is this injunction not to extend GSP to products whose American producers will, are likely to or have been harmed thereby which those who have administered GSP have, at least with respect to ferroalloys, largely eviscerated.

The Association has on three occasions (February of 1976, September of 1977 and July of 1979) submitted petitions that certain ferroalloys be removed from GSP. Each petition was supported by detailed market and economic information demonstrating that the Association has a compelling case that each product was, in fact, import-sensitive in the context of GSP and, indeed, that as the cumulative effect of GSP was increasingly felt over the three years, that the case for removing each product from GSP had grown progressively stronger.

Yet, in each case, the petitions were rejected. The rejections all chanted the statutory incantation that the products were not deemed to be import-sensitive in the context of GSP. But, each rejection was devoid of any fairly reasoned explanation either of what the Administration thinks import-sensitive in the context of GSP means or of why the data the Association submitted did not make the required case. Whatever explanations were offered simply did not, in the circumstances, make economic sense. Moreover, the most recent petitions sub-

mitted in July of 1979 and containing new data and arguments were rejected summarily, without affording the Association even an opportunity to answer questions and meet objections—all in spite of the fact that GSP imports of two of the three products had surged and the U.S. industry had been thrown into a red in a time of strong demand.

The Administration's refusal to apply the statutory terms properly is shown in its 1978 explanations of its rejection of the 1977 petitions. When the Association wrote to point out the manner in which these explanations were clearly erroneous legally, factually and economically, the Administration replied by apparently abandoning the first rationale of its decision and substituting a whole new set of reasons, themselves likewise flawed. When the Association subsequently wrote to explain how this second set of rationales was no more responsive to the issues than the first, it simply never received an answer.

This is not the place to rehearse the merits of these cases—although the Association can provide details if the Subcommittee wishes. Suffice it to say here that Congress' expectation that GSP imports would largely replace developed country imports and would not cut deeply into the sales of U.S. producers has not been realized in the ferroalloy industry. GSP country imports have multiplied five fold since 1975 while imports from non-GSP countries have also increased considerably. Our industry has been the big loser.

Thus, what the GSP record shows with respect to the one industry the Association knows is that those who administer GSP have interpreted the phrase "import-sensitive" in the context of GSP (and the related requirement of Section 505(3)) out of existence. But, the phrase has a meaning clearly intended by Congress, and, up to now, those who administer GSP have failed to recognize it. Accordingly, if there is to be no meaningful graduation, as suggested in Part I above, Congress must act to require that its will on the administration of GSP within the limitations of the 1974 act be heeded.

The Association thanks the Subcommittee for the opportunity to present these views. If there are any questions concerning any aspect of this statement, please call or write George A. Watson, the President of the Association.

STATEMENT OF MATTEL, INC., HAWTHORNE, CALIF.

INTRODUCTION

This statement is filed on behalf of Mattel, Inc., 5150 Rossmore Avenue, Hawthorne, California 90250 in connection with the Trade Subcommittee's review of the operation of the Generalized System of Preferences (GSP) authorized under Article V of the Trade Act of 1974 to provide duty-free entry of imports of eligible articles from beneficiary developing countries (BDC's) designated by the President. As required under Section 505 of the Trade Act of 1974, on April 17, 1980, the President submitted a Report to Congress on the operation of the first five years of the GSP. In connection with the preparation of this Report, Mattel testified on September 19, 1979 at hearings held by the Trade Policy Staff Committee (TPSC), and subsequently submitted further written representations concerning this review. Mattel is pleased to have this opportunity to further supplement the views which it earlier set forth.

SUMMARY OF STATEMENT

As stated during the hearings held by the TPSC, Mattel is one of the world's largest manufacturers of toys with worldwide production and sales. During the years that GSP has been in existence in the United States, Mattel has had a significant amount of experience with the application and administration of the program. As a result of its experience with GSP, Mattel wishes to share with the Trade Subcommittee the following conclusions:

1. GSP is part of a mutually beneficial trade relationship between the United States and developing countries with both the United States and BDC's profiting from the program;

2. The uncertainty inherent in GSP impedes the objectives and overall effectiveness of the program. Business decisions with respect to capital investment and employee training have been undermined by the uncertainty which surrounds the implementation of GSP; and

3. Certain countries should not be unilaterally graduated from GSP, inasmuch as the graduation of certain countries would not foster the goals of GSP. Furthermore, the competitive need mechanism of title V already acts as a form of graduation by excluding more competitive BDC's from GSP duty free treatment in particular products.

STATEMENT

As indicated in Mattel's testimony of September 19, 1979, before the TPSC, and in supplemental representations to the TPSC, Mattel's experience with GSP evidences that GSP can be successful for both the BDC and the American consumer. The April 17, 1980, Report prepared by the President and the testimony given at the May 8, 1980, hearings of the Trade Subcommittee confirm that GSP has increased opportunities for developing countries to diversify and expand their exports. (Page 2 of Statement of United States Trade Representative.) It has been Mattel's experience that GSP is generally working well. The U.S. Government has been administering the program in an effective and reasonable fashion and lesser developed countries have been able to diversify and increase exports to the United States, and in so doing lessen their dependence on foreign aid. (For detailed information regarding how Mattel's experience has benefited the BDC's and the American consumer, see the Mattel testimony of September 19, 1979, and its written representations of November 5, 1979, and November 27, 1979.)

The primary criticism which Mattel has concerning the administration of GSP concerns the high degree of uncertainty which surrounds the implementation of the program. It is extremely difficult for any company to conduct its business in an atmosphere of uncertainty. The problem of not knowing until the last moment whether a product will receive GSP treatment for a particular year necessarily has a chilling effect on business decisions which contemplate investment in BDC's. The goals of GSP will be better served if more adequate time frames are established concerning the administration of GSP to permit adequate time for business to react to changes which are deemed necessary in the program. Mattel is confident that more firms would consider the applicability of GSP benefits in their investment and development deliberations if a greater degree of certainty was added to the program.

The Trade Agreements Act of 1979 addressed the above problem by extending the effective date for annual program changes from 60 to 90 days after the close of the statistical year. The purpose of the change was to allow the Administration greater time to process import statistics and to provide adequate notice of change. (H.R. No. 96-317 at 193.) However, this step was totally inadequate. For example, this past year the Administration utilized all but one day of the 90-day extension to analyze statistics. It appears evident that the 90-day extension will not provide business any relief from the uncertainties inherent in utilizing GSP. Quite frankly, in terms of commercial realities, businesses need months to adequately prepare for changes, as opposed to what the Government has been providing, which was only 24 hours this year. All parties could be best accommodated by building into GSP time frames which permit business an opportunity to adjust to change.

The hearings held by the TPSC in September 1979, and the hearings held by the Trade Subcommittee on May 8, 1980, revealed that certain United States industry and labor representatives vigorously support the proposition that certain BDC's should be graduated out of their GSP eligibility. Graduation refers to a program in which certain countries would lose their GSP eligibility based upon certain criteria which vary from levels of exports to per capita GNP to numerous other tests aimed at measuring a country's stage of development. The concept of graduation is aimed primarily at Hong Kong, Korea, Taiwan, Mexico, and Brazil. Proponents of graduation point to the fact that approximately 70 percent of total GSP benefits accrue to the above five countries. For the reasons stated in our previous statements and representations, and further expanded upon below, Mattel strongly opposes the adoption of a graduation program.

Any graduation program would necessarily be based upon arbitrary or discriminatory criteria, the measurement of which would be complex and inexact. It has been the policy of the United States to grant preferences under GSP without discrimination and not to base its decisions concerning GSP upon political considerations. The institution of a program in which a country would be uni-

generally graduated from GSP constitutes a discriminatory procedure in application of GSP and, furthermore, one which would not serve any beneficial purpose. It has been generally recognized that the least developed countries were unlikely to be immediate beneficiaries of an industrial tariff preference program. (The President's April 17 Report at 26.) The least developed countries were excluded by the structure of United States GSP from participating in the program. Certain designated import sensitive items were omitted from GSP product coverage. The import sensitive industries—textile and apparel articles, footwear, etc.—are precisely those industries in which the least developed countries can more readily produce merchandise. These industries are generally those which require lower levels of technology and shipping and marketing capability. Accordingly, the unequal distribution of GSP benefits can more properly be attributed to the limited product coverage of GSP, rather than certain countries monopolizing GSP benefits.

A unilateral graduation program based upon certain unspecified criteria appears to Mattel to be unnecessary in light of the "competitive need" mechanism of GSP. The competitive need limitations are designed precisely to reserve the benefits of the program for the less competitive producers. The formula ensures that benefits are accorded to developing countries which are not yet internationally competitive in certain products. It is significant to note that the five countries which are most prominently mentioned as candidates for graduation not only received 70 percent of GSP benefits, but also accounted for 70 percent of the overall competitive need exclusions and over 80 percent of the competitive need exclusions against industrial items. (The President's April 17, 1980, Report at 27.) In effect, the competitive need formula establishes a product by product case by case graduation system which provides ample protection for least developed countries, as well as American industry and labor.

In fact, one of the suggestions which we would strongly urge Congress to adopt into the GSP is that the President be given discretionary authority to give repeal of GSP eligibility when a certain product triggers the competitive need formula. The mandatory exclusion of a product in many instances does not hurt either American industry and labor or the involved BDC.

Mattel submits that this is an area in which greater discretionary power given to the President will aid GSP in achieving its goals. This particular problem was recognized by the Trade Agreements Act of 1979 which amended the competitive need provisions to include a de minimis rule of one million dollars valued annually for GSP eligible imports. However, this amendment does not go far enough. Rather than mandatory revocation, broad discretion on the part of the President with respect to removal of products which exceed the competitive need provisions would be beneficial, and also in furtherance of the goals of GSP.

Significantly, the unilateral graduation of certain countries would not benefit the least developed countries. As discussed in the President's Report the least developed DBCs were not able to increase their overall share of GSP benefits when one of the five major beneficiaries "graduated" from GSP treatment as a result of the competitive need provisions. (President's April 17, 1980, Report at 26.) It follows that exclusion of countries such as Hong Kong, Korea, Taiwan, Mexico and Brazil will only transfer the U.S. import market share to the European countries and Japan.

Lastly, the United States is not the only industrial nation to adopt GSP. In fact, in comparison with our major trading partners, the United States was the last country to adopt a GSP program. Any graduation program needs to be established in conjunction with the other industrial nations. This is not the proper forum to institute a graduation system, but initially such a program could be discussed within the contexts of GATT, OECD, and UNCTAD.

In conclusion, Mattel submits that improvement in the distribution of GSP benefits can only result from an expansion of GSP product coverage and not from graduation of certain countries.

CONCLUSION

Mattel thanks the Trade Subcommittee for the opportunity to express the views expressed herein and will continue to express an active interest in the continuation of the United States GSP.

STATEMENT OF OPTICAL MANUFACTURERS ASSOCIATION

The Optical Manufacturers Association appreciates the opportunity to submit this statement as part of the current review of the Generalized System of Preferences.

The OMA is a national trade association of U.S. manufacturers of ophthalmic frames, lenses and cases, and or ophthalmic equipment and machinery. OMA represents over 50 domestic ophthalmic frame and lens manufacturers employing more than 15,000 workers. It is estimated that OMA members account for more than 85 percent of the ophthalmic products manufactured in the United States. For over 150 years, members of the OMA have provided citizens in the United States and other nations with the highest quality products at competitive prices.

The major points of our statement are summarized as follows:

1. The U.S. optical industry has been unjustly treated by the misapplication of the Generalized System of Preferences program and faces extinction if current policies are allowed to continue. We protest this callous and unfair treatment by our own government in the strongest possible terms and urge a complete and thorough review of GSP to create a proper and balanced treatment of domestic and international concerns.

With specific regard to GSP and its administration by the Trade Policy Staff Committee, we recommend the following improvements:

1. The TPSC should broaden the scope of its review to include relevant developments since before the institution of GSP benefits.

2. The TPSC should publish a full report on its decisions, together with an outline of the rationale employed.

3. The TPSC should make every reasonable effort to resolve a case before requiring petitioners to undertake a new hearing before the ITC.

4. A reasonable set of criteria for determination of import sensitivity should be set forth, subject to public comment and public hearings.

5. Any product that is the subject of a petition in the GSP review process should be considered import-sensitive unless a convincing case can be made to the contrary.

6. The list of countries eligible for GSP treatment should be limited to those developing countries whose competitive positions in the world trading system genuinely warrant such treatment. This would eliminate countries such as Hong Kong and Korea which can hardly be considered developing by any realistic standards.

Unfair treatment of OMA and scope of GSP review

Much to the consternation of the domestic ophthalmic industry, a number of products including ophthalmic lenses and frames were included in the list of items eligible for duty-free treatment when the Generalized System of Preferences (GSP) program was initiated in 1976. Because of the quantity of imports already entering the United States at that time from designated GSP beneficiary nations and the related impact on the ophthalmic-goods industry and market in the United States, the OMA formally petitioned for the removal of ophthalmic eyeglass frames and lenses from the list of duty-free items in 1976. This initial petition was reviewed by the Trade Policy Staff Committee (TPSC) but was rejected on grounds that evidence of significant injury to the domestic industry was lacking.

Since then, the OMA has petitioned two additional times, in 1978 for the removal of both lenses and frames, and in 1979 for the removal of frames only. In both cases, the OMA petitions were again rejected.

We find these results disturbing, not only in the lack of understanding about this industry demonstrated by the TPSC, but in the method by which the Committee reached its determinations. In each case, the TPSC reviewed the information presented only with regard to changes that had occurred since the previous petition. This meant that, for the most recent petition, the review was confined entirely to the period from 1978 to 1979. In our judgment, developments even in this limited period would justify removal of the items from the GSP duty-free list; although the TPSC rejected this point, much more significant was its refusal to consider the more relevant time period—from the situation which existed before the initiation of GSP in 1976 up to the present.

Had the Committee considered the case in its proper context, we clearly would have received an affirmative decision on our petition to remove ophthalmic frames and parts. However, because of the way the TPSC review process works, the

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entire period from the pre-GSP situation could have been considered only if the OMA had waited until 1979 to submit its first petition.

In other words the OMA, and other petitioners who have not been successful in their efforts to remove items from the GSP list, are effectively penalized for using a system that was originally designed to protect their interests.

While some may believe this procedure has the administrative convenience of discouraging petitions and so reducing work loads, in and of itself it eliminates the protection and recourse that were supposed to be made available to domestic industry.

When the entire period from before the introduction of GSP is examined, as it should be, the impact that GSP imports have had on the domestic ophthalmic industry is quite clear. Although total apparent domestic consumption of ophthalmic frames was nearly stagnant, growing only 11 percent over the 4 years from 1975 to 1979, imports expanded vigorously by 55 percent overall. Imports from GSP beneficiary countries had accounted for less than a twentieth of apparent domestic consumption in 1975; but in the space of only four years they soared by more than 500 percent to capture nearly one-fifth of the total U.S. market and one-third of the import market in 1979—with no peaking of the trend in sight.

Negative effect of GSP on domestic industry

This surge in GSP imports has demonstrably caused the U.S. ophthalmic industry to stagnate—and in some cases to decline—in comparison with the production, employment and profitability levels it enjoyed in pre-GSP years. Profits, for example, have declined steadily since the initiation of GSP in 1976. Domestic production and employment within the U.S. ophthalmic market have also suffered from the severe penetration of imported GSP frames. In all, U.S. manufacturers have suffered a loss of almost 30 percent of the total domestic market since 1976, with over 80 percent of this decrease directly attributable to increased imports from GSP beneficiary nations.

U.S. facilities for the production of eyeglass frames tend to be located in the older, urban industrial areas of the Northeast United States. The largest concentration of domestic producers is in New York, New Jersey, Rhode Island and Massachusetts, areas with above-average unemployment rates. Production workers in eyeglass frame manufacturing plants, especially those in the Northeast U.S. tend to be either skilled or semi-skilled. Unskilled labor is also used on occasion. In 1969, the average hourly wage of U.S. production workers manufacturing ophthalmic goods was \$2.87, about 90 percent of the average for all U.S. private manufacturing in that year. Since 1969, this differential has widened, such that by 1978 the typical worker manufacturing ophthalmic goods was earning \$4.58 per hour, or only 74.2 percent of the average for all U.S. manufacturing of \$6.17 per hour.

From the preceding facts it should be clear that the burden of reduced U.S. employment and below-average earnings as a result of increased import competition from countries enjoying zero-duty treatment tends to fall disproportionately on the Northeast employment corridor.

Much of this thrust into the U.S. market has come from Hong Kong, which accounted for almost 70 percent of the ophthalmic eyeglass frames imported into the U.S. from GSP nations in 1979. In addition, by 1979 Hong Kong had become the second largest supplier in the U.S. market capturing over twenty percent of total imports and over twelve percent of the total U.S. market. Clearly, keeping a nation like Hong Kong on the list of GSP beneficiary nations is totally unjustified.

Additionally, the majority of imported frames from GSP beneficiary nations are produced with extremely low cost labor, with their wages averaging less than a fifth of what U.S. ophthalmic workers are paid, and foreign producers have the advantage of few if any regulatory costs. These factors clearly provide a distinct advantage to GSP beneficiary nations, an advantage that has resulted in the tripling of their market share of the U.S. ophthalmic market since 1976—specifically at the expense of domestic producers.

Obviously, in view of such dramatic shifts in the industry and market since before GSP began, the TPSC's review of the limited 1978-1979 time period did not do justice to the domestic ophthalmic industry.

In addition, the TPSC has not been consistent in reviewing the information presented. For example, after the rejection of its second petition, the OMA

was informally told that the principal reason for denial was that the market was considered to be segmented—that is, it was believed imports from the developing countries did not compete directly with U.S. products.

To counter this erroneous argument, the OMA painstakingly spent a large amount of time and money demonstrating the complexity of the industry, including the fact that imports of ophthalmic eyeglass frames from GSP beneficiary nations do compete in all sectors of the U.S. marketplace—in short, proving that there is no segmentation in the market since all of the domestic laboratories, outlets and dealers carry both domestic and foreign frames. Nevertheless, while the OMA had proceeded on the advice that this point was central to the TPSC's earlier decision, the information apparently was not even considered in the review of the third petition.

TPSC review procedurally deficient

In general, therefore, we believe the system of review used by the TPSC has proven to be procedurally deficient. GSP treatment was intended to enable developing countries to gain access to the United States market which they would not have been able to attain in the absence of duty-free treatment. It was not intended to aid nations that already hold a competitive advantage over domestic firms, which evidently is the situation in the market for ophthalmic goods. Further, it was not intended to promote the growth of GSP imports at the expense of growth in the domestic industry, which has also been the case. However, by limiting the procedural resource of domestic industries through its method of reviewing petitions, the TPSC has in effect granted undue benefits to developing nations at the expense of domestic interests.

Full report needed on GSP decisions

One of the more serious procedural deficiencies in the GSP review process is the lack of an adequate, published evaluation or report by the TPSC, summarizing its findings and the rationale upon which they were based. In some cases, petitioners have received letters which provided a sketchy outline of the Committee's findings. In others, such as that mentioned earlier in which the OMA was involved, petitioners may be informally advised of certain aspects that were decisive in the Committee's consideration—but given the informal character of such communications, there is no guarantee that these points will be regarded as germane in future proceedings. For most cases, the outcome is limited to a brief notice in the Federal Register (which will now appear, generally, by the last day of March following the hearing, whether or not an article is added to or deleted from the preference list).

Given the volume of work before the TPSC, of course, it cannot realistically be expected that reporting responsibilities can be as elaborate as those associated with legal proceedings or unfair-trade practices. However, the present arbitrary procedure is inconsistent with the principles of orderly and equitable management of international trade problems affecting American workers and firms. In fact, the nature of the domestic GSP review process is fairly comparable to that of the international dispute-management process within the GATT, through which different trading entities seek to resolve problems before they emerge as serious disputes.

During the MTN, U.S. negotiators pressed strenuously for rules to require a full, published report on the findings of any GATT dispute-settlement panel, including an outline of the rationale employed and any relevant factors that were considered by the panel. The U.S. argued that such a requirement would promote effective, predictable management of trade-related problems, by the gradual accumulation of a body of case law (even though no binding precedents would be involved) and by reducing the possibilities of arbitrary or capricious adjudication by the reviewing panels. It seems reasonable that the procedural safeguards which the U.S. Government has sought to ensure for itself, in an international context, ought to be accorded also to members of the U.S. private sector in a domestic context.

Referral of cases to ITC unnecessary and burdensome

The current procedures for GSP review may also cause unnecessary burdens for domestic parties—especially smaller firms, whose financial and manpower resources are limited—through the referral of cases to the International Trade Commission whenever the TPSC feels it has insufficient information to develop recommendations. Rather than forcing petitioners to undergo two complete sets of separate hearings, it would be more efficient to attempt seriously to resolve most cases, if at all possible, at the TPSC level. This might be achieved by

soliciting additional information from the parties involved, and by drawing upon the staff resources of various agencies concerned with GSP issues.

Fair definition of import sensitivity needed

Additionally, the question of import sensitivity creates much uncertainty in the GSP review process. As presently structured, the system works in such a way that GSP benefits are extended as a matter of course to eligible LDCs, within competitive-need limitations for specific products, so long as those products cannot be considered import sensitive. Clearly, a definition of this term in the GSP context should not be as exacting as that which is involved in an escape clause context. The latter entails the highest threshold of injury in the U.S. trade statutes today, and is employed in actions which temporarily set aside trade concessions to which the United States is committed through GATT bindings. Tariff preferences for LDC imports under the GSP scheme, however, are neither permanent, bound concessions nor obligations on the part of the United States—and U.S. spokesmen went to great lengths to underscore this point during the MTN.

Nevertheless, the trend so far has been toward a high injury-threshold, and thus for most products to be considered non-import sensitive by the TPSC rather than the opposite: since the GSP program began, more than six times as many products have been added as have been removed from the preference list on grounds of import sensitivity. Considering the numerous recent GSP cases in which import penetration by LDCs is shown to be high and growing while domestic production is stagnant at best, such as those cases involving ophthalmic goods, it would seem that the prevailing pattern of decision-making regarding sensitivity of GSP imports ought to be turned 180 degrees around; at the very least, the process should be guided by explicit and commonly-understood definitions and criteria.

For such decisions to reflect the balance of domestic interests—including consumer-welfare and anti-inflationary arguments for the importation of products at competitive prices—the fundamental rationale in GSP cases ought to be as follows: since the bound tariff reductions undertaken by the United States in successive rounds of trade negotiations over the past 30 years have resulted in a tariff schedule that now is as low as it can or should be for any given product, further reductions (i.e., for the sake of giving LDC industries a competitive edge) can be accommodated only to the extent the products concerned are not import-sensitive in a very broad sense. The presumption therefore ought to be that most products which currently are at issue in GSP proceedings are *prima facie* import-sensitive—otherwise, U.S. negotiators would have been able to reduce duties on those products to minimum levels or to zero, during the MTN or previously.

GSP eligibility should be limited

Finally, a serious problem exists with regard to the determination of eligible developing countries under the CSP program. In the current policy environment, political inertia appears to weigh heavily against removing countries from the eligibility list. Many beneficiary countries apparently would regard such unilateral action on the part of the United States as some sort of hostile or punitive measure; and many officials within the U.S. executive branch, fearing complications or troublesome repercussions for other areas of our foreign relations, may be quite reluctant to take such a step.

Allowing the continuation of GSP benefits by default to advanced developing countries is certainly not in the interests of U.S. producers, workers or consumers, for granting a GSP "bonus" to foreign producers that are already competitive cannot be expected to yield net benefits for the U.S. economy over the longer term. Furthermore, the great majority of LDCs—whose competitive positions in world trade are supposed to be assisted by the GSP program—will continue to be held back so long as eight or ten of the most advanced "developing" countries receive most of the GSP benefits, as they have for the past several years.

For these reasons, it is imperative that action be taken to remove certain countries immediately from eligibility for GSP treatment, notwithstanding any short-term, bilateral complications that might be involved. Failure to take such action now would be perceived abroad as tacit recognition of the permanence and "inviolability" of GSP benefits once they are accorded—and thus would make any future effort to adapt U.S. policies to an ever-changing competitive environment in world trade extremely difficult if not impossible.

Conclusion

The domestic optical frame manufacturing industry which has enjoyed a long and proud history, is fighting for its very survival. The rising tide of Hong Kong and other GSP beneficiary country imports threaten to drown domestic producers. The same government which has imposed on U.S. industry the added costs of OSHA, EPA, FDA and other regulations, costs which GSP producers do not incur, has granted these foreign producers an additional and unfair advantage by the inequitable application of the GSP program. Unless steps are taken to eliminate this inequity, the domestic optical frame manufacturing industry will take its place alongside other domestic industries which have already been sacrificed—textile, TV, footwear and others. We respectfully urge the Congress to reevaluate this program which is costing the U.S. economy thousands of jobs and important manufacturing components.

STATEMENT OF MYRON SOLTER, ESQ., AND DAVID SIMON, ESQ., ON BEHALF OF BOARD OF FOREIGN TRADE OF THE REPUBLIC OF CHINA (TAIWAN)

I. INTRODUCTION

This statement concerning the general operation of the Generalized System of Preferences (GSP) is submitted to the Subcommittee on Trade of the Ways and Means Committee of the U.S. House of Representatives, on behalf of the Board of Foreign Trade of Taiwan, by Myron Solter and David Simon of Bregman, Abell, Solter & Kay, 1900 L Street, NW., Washington, D.C. The Board of Foreign Trade (BOFT) is an agency of the Ministry of Economic Affairs of the Republic of China. Messrs. Solter and Simon are duly registered as attorneys for BOFT under the Foreign Agent Registration Act. Our earlier letter to the STR in related proceedings is attached hereto as Attachment A.

The following is a summary of the position of BOFT in regard to the principal issues raised in the President's Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (96th Congress, 2d Session, WMCP 96-58, 1980 [hereinafter, Report]).

1. Deliberations concerning a graduation policy should be transparent, with an opportunity for full public participation.
2. Graduation, if implemented, should be phased in gradually.
3. Piecemeal graduation on an individual-product basis should not be expanded from current procedures and norms.
4. If such graduation be contemplated, notice-and-comment procedures should be established for public participation.
5. The \$1,000,000 exemption from the competitive need limitation should be increased to at least \$3,000,000.
6. Product review procedures should be made more transparent.

1. *The GSP has assisted the growth of beneficiary countries without having a detrimental effect on total U.S. trade*

Taiwan is one of the major beneficiaries of the GSP program. In 1979, total U.S. imports from Taiwan were valued at \$5,901.2 million. Of that total, \$2,526.3 million (42.8 percent) were GSP-eligible articles. Of these GSP-eligible articles, \$1,720.9 million were imported duty free (68.1 percent of GSP-eligible articles; 29.2 percent of total imports from Taiwan), while \$570.7 million were excluded because of competitive need (22.6 percent of GSP-eligible articles; 9.7 percent of total imports from Taiwan) and \$234.7 million were excluded for other reasons (9.3 percent of GSP-eligible articles; 4 percent of total imports from Taiwan). See Table No. 1.

TABLE 1.—TAIWAN'S PERFORMANCE UNDER GSP, 1979

	Millions	Percent of total	Percent of GSP-eligible
Total imports.....	\$5,901.2		
Total GSP-eligible articles.....	2,526.3	42.8	
Duty-free imports.....	1,720.9	29.2	68.1
Competitive-need exclusions.....	570.7	9.7	22.6
Other exclusions.....	234.7	4.0	9.3

Source: Total imports, Bureau of Census; other data, Report at 180.

Taiwan's GSP exports to the United States have constituted an increasing percentage of Taiwan's total exports to the United States, increasing from 24.4 percent in 1976 to 27.8 percent in 1978 (Table No. 2). In the same period, total GSP duty-free imports from East Asia increased by 86.4 percent, while total imports from East Asia beneficiaries increased by 57.6 percent (*id*).

TABLE 2.—TAIWAN'S GSP EXPORTS COMPARED TO REGIONAL, TOTAL GSP AND GLOBAL IMPORTS, 1976-78, WITH PERCENTAGE GROWTH RATES FOR THE PERIOD

[Dollar amounts in millions]

	Total imports	GSP dutiable imports	GSP duty-free imports	III as per- cent of I
	(I)	(II)	(III)	(IV)
Taiwan:				
1976.....	\$2,979	\$327	\$728	24.4
1977.....	3,678	439	912	24.8
1978.....	5,161	565	1,433	27.8
Percent growth.....	(73.2)	(72.8)	(96.8)	
East Asia:				
1976.....	10,776	1,524	1,571	14.6
1977.....	13,376	1,854	2,177	16.3
1978.....	16,979	2,249	2,929	17.3
Percent growth.....	(57.6)	(47.6)	(86.4)	
All GSP beneficiaries:				
1976.....	18,056	3,370	3,160	11.3
1977.....	34,662	3,800	3,878	11.2
1978.....	41,420	4,537	5,204	12.6
Percent growth.....	(47.6)	(34.6)	(64.7)	
Total imports:				
1976.....	119,497	3,370	3,160	2.6
1977.....	145,518	3,800	3,878	2.7
1978.....	170,719	4,537	5,204	3.0
Percent growth.....	(42.8)	(34.6)	(64.7)	

Source: Report at 150ff.

While Taiwan's trade with the United States has flourished under the GSP program, it is significant that total GSP imports from all beneficiaries have also grown at rates exceeding the growth of non-GSP imports. Thus between 1976 and 1978, total imports increased by 42.8 percent, while total GSP duty-free imports increased by 64.7 percent (Table No. 2). These statistics demonstrate that the GSP program has benefited not only Taiwan but also GSP beneficiaries in the aggregate.

Nevertheless, the benefits derived from GSP in no way threaten the general U.S. import trade or balance of payments. In 1978, total GSP duty-free imports constituted a mere 3.0 percent of total U.S. imports (Table No. 2). Hence on an macroeconomic basis, GSP imports can have only a negligible impact on the U.S. trade picture.

2. The President's proposals regarding graduation are fundamentally sound but would benefit from the modifications proposed herein

We support the principle that the United States cannot unilaterally implement a graduation policy. An international consensus on the issue needs to be worked out * * *. (Report at 72.) As the Report properly notes, attempts to force graduation either bilaterally or in these international (North/South) forums would lead to confrontations which could jeopardize long term U.S. trade policy goals. (*Id.* at 72.)

At the same time, however, we urge that several modest changes be incorporated in the President's policy.

First, in harmony with the general principle of increased public participation and transparency in GSP matters (e.g., Report at xii), we propose that deliberations concerning U.S. graduation policy should include notice and opportunity for further public comment. While the statements submitted during the course of the present hearings and the precursor STR hearings have addressed the issue of graduation, we believe more clearly defined hearings would better elicit detailed views and proposals concerning graduation.

Second, we propose that any graduation by country (rather than by product) be implemented gradually over a period of several years. As it stands now, par-

ticipation in the GSP program is uncertain at best; with the annual amendments to the GSP list, a beneficiary country is unable to predict whether its exports will continue to receive benefits in forthcoming years. Further uncertainty would result from the possibility of an abrupt withdrawal of GSP benefits, to the detriment of the trade of the beneficiary countries.

Third, we submit that the President's announced intention to "exercise his authority to 'withdraw, suspend or limit duty-free treatment'" (Report at xlii) is ill-advised and unwarranted. The competitive need and LDDC provisions are currently providing adequate assurance of piecemeal graduation and sharing of trade benefits, and the uncertainty injected in the GSP program by the President's proposal will only further undermine the ability of beneficiaries to predict their competitiveness in the U.S. market, and therefore to export to the United States.

For example, in 1980, 41 articles from Taiwan were excluded from GSP benefits as a result of competitive need limitations (Report at 131ff). As a result of competitive need limitation, 22.6 percent of Taiwan's GSP-eligible exports were dutiable in 1979; a further 9.3 percent of eligible articles were dutiable for other reasons in that year (Table No. 1, supra). Thus Taiwan is already 32 percent "graduated," i.e., is already receiving developed-country tariff treatment on 32 percent of its GSP-eligible exports to the United States.

Clearly, with one-third of its eligible exports excluded from GSP treatment, Taiwan does not need the further uncertainty of declared Presidential intentions to accelerate this piecemeal graduation on a product-by-product basis.

Moreover, the data of Table No. 2, supra, suggest that Taiwan's beneficiary status is neither preventing nor hindering the development of other beneficiaries. As shown previously, total GSP duty-free imports are increasing more rapidly than overall U.S. imports. The new LDDC provisions for immediate application of final MTN rates to least developed developing countries will further assist these countries to increase their exports to the United States.

Moreover, if the President does implement an expanded use of the authority to suspend or limit duty-free treatment, we urge that this program be subject to public notice, scrutiny, and participation by means of notice-and-comment rulemaking procedures.

Fourth, we submit that the exception from the competitive need limitation for goods valued under \$1,000,000 is too small (see Trade Agreements Act of 1979, section 1111(a)(4)(B)). We propose that the exemption ceiling be raised to at least \$3,000,000, adjusted annually. The current ceiling obviously can have little impact on GSP trade, whether from first-tier or second-tier LDC's. Increasing the exemption to \$3,000,000 would have no noticeable impact on U.S. foreign trade, since total duty-free GSP imports now amount to only three percent of total imports, while it would provide a more substantial incentive to beneficiary countries.

3. The increased transparency of GSP deliberations is beneficial but does not go far enough

The President's plans to establish a "GSP information center" and to revise the product review schedule (Report at 66-67) will contribute substantially to the sort of transparency suggested in the Trade Agreements Act of 1979 as beneficial for foreign trade decision making. However, we submit that this transparency should be carried further by implementation of the following proposals:

1. The reports of International Trade Commission investigations of product eligibility should be made public. These reports are currently confidential. Their publication would enhance the ability of interested parties to participate in decision-making, while such publication would add negligibly to the tasks and costs of the government agencies concerned.

2. The exemption of a country from the competitive need limitations under the discretionary authority of section 504(c)(1) of the Trade Act of 1974 should be made subject to public hearings similar to the product review hearings. The authority, moreover, should be expressly broadened beyond the possible limitation to the Philippines expressed in the Senate Report on the Trade Act of 1974 (at page 227).

As an example of the inequity that arises in certain competitive-need-limitation questions, we have appended hereto a copy of our correspondence with the STR regarding the competitive-need exclusion of Christmas tree lamps from Taiwan (Attachment B).

II. CONCLUSIONS

The United States GSP program appears to be performing its function well, as evidenced by the acceleration of GSP duty-free imports since the inception of the program. The recent changes relating to LDDC's and the \$1,000,000 exemption to the competitive need limitations should ensure that the benefits of trade with the United States will be shared broadly among developing nations, while the competitive need exclusions from GSP coverage have demonstrably ensured that GSP benefits will go to those countries that most need them. The increased transparency and expanded timetable will benefit the program, but transparency can be further increased with no detrimental side effects.

ATTACHMENT A

BREGMAN, ABELL, SOLTER, & KAY,

Washington, D.C., October 16, 1979.

Re: General operation of GSP Program vis-a-vis Taiwan

Mrs. SANDRA O'LEARY,

Executive Director, GSP Subcommittee, Office of the Special Representative for Trade Negotiations, Washington, D.C.

DEAR Mrs. O'LEARY: This letter, on behalf of the Board of Foreign Trade (BOFT) of Taiwan, is submitted in connection with the Trade Policy Staff Committee's inquiry into the general operations of the Generalized System of Preferences (GSP) program (44 Fed. Reg. 44310, July 27, 1979).

This submission focuses on the procedures and criteria according to which a country may be graduated from the GSP program under section 502(a)(2) of the Trade Act of 1974 (hereinafter, the Act).

We respectfully submit that Taiwan should not be graduated from the GSP program and that any decision as to Taiwan's graduation must take into consideration not only local conditions in Taiwan but also competitive pressures experienced in Taiwan as a result of the trade expansion of other beneficiary countries such as Korea, Hong Kong and others of Taiwan's Pacific rim neighbors.

Section 502(a)(2) of the Act sets forth the procedures that must be followed should the President decide to terminate the "beneficiary developing country" status of a GSP beneficiary. Termination is effected by Executive order, and must be preceded by (1) at least 60 days' notice to the Senate and the House of Representatives, such notice stating the President's intent to terminate beneficiary status and the reasons therefor and (2) at least 60 days' notice to the beneficiary country, such notice stating the intent to terminate beneficiary status and the reasons therefor:

If the President has designated any country as a beneficiary developing country for purposes of this title, he shall not terminate such designation (either by issuing an Executive order for that purpose or by issuing an Executive order which has the effect of terminating such designation) unless, at least 60 days before such termination, he has notified the House of Representatives and the Senate and has notified such country of his intention to terminate such designation, together with the considerations entering into such decision.

That these notice provisions apply equally to both the Congressional notification requirement and the beneficiary notice requirement is clear from the Senate Report on the Act (S. Rep. 93-1298, 93d Congress, 2d Session, 1974):

The Committee * * * added an amendment to section 502(a)(2) which would require that when the President terminates a country's beneficiary status, he notify such country and the Congress 60 days in advance. Id at 220.

These provisions apply to Taiwan by virtue of section 4 of the Taiwan Relations Act, Public Law 96-8, 93 Stat. 14 (1979).

The criteria governing the withdrawal or suspension of GSP beneficiary status are the same as those governing the initial determination of eligibility. Section 504(a) of the Act gives the President the discretion to withdraw beneficiary status:

The President may withdraw, suspend or limit the application of the duty-free treatment accorded under section 501 with respect to any article or with respect to any country * * *. In taking any action under this subsection, the President shall consider the factors set forth in sections 501 and 502(c).

The House report (House Rpt. 93-571, 93d Congress, 1st Session (1973)) and the Senate report make it clear that the criteria for granting and for terminating beneficiary status are identical:

The President is authorized to withdraw, suspend, or limit preference at any time with respect to any article or any beneficiary developing country. In taking such action, the President must consider the factors taken into account in granting preferential treatment initially and in designating beneficiary countries. House Report at 87; see also Senate Report at 226.

Section 501 of the Act, incorporated as a criterion for termination by section 504(a), provides general authority to extend preferences both as to beneficiary countries and as to eligible articles:

The President may provide duty-free treatment for any eligible article from any beneficiary developing country in accordance with the provisions of this title. In taking any such action, the President shall have due regard for—

(1) the effect such action will have on furthering the economic development of developing countries;

(2) the extent to which other major developed countries are undertaking a comparable effort to assist developing countries by granting generalized preferences with respect to imports of products of such countries; and

(3) the anticipated impact of such action on United States producers of like or directly competitive products.

Of these three criteria, paragraph (3) appears inapplicable to a termination inquiry as to a beneficiary country; by its terms, this paragraph is concerned with the inclusion of particular articles on the eligibility list, not with the inclusion of particular countries on the beneficiary list. This is evident from the language referring to like or directly competitive products: "products" are not like or directly competitive with countries.

Paragraph (2) of section 501 appears applicable to the termination of beneficiary status insofar as a beneficiary country may be affected by tariff (and non-tariff) treatment of that country's exports by its developed trading partners.

Paragraph (1) of section 501 is further explicated in section 501(c):

(c) In determining whether to designate any country under this section, the President shall take into account—

(1) an expression by such country of its desire to be so designated;

(2) the level of economic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he deems appropriate;

(3) whether or not the other major developed countries are extending generalized preferential tariff treatment to such country; and

(4) the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country.

As the House report makes clear, no definition * * * of developing countries is included in the Act. Id. at 84. The lack of such a definition is necessitated by the inability to quantify the criteria by which beneficiary status may be determined:

Statistical criteria such as per capita GNP are not very satisfactory measures by themselves for distinguishing between various levels of development, since these statistics must be evaluated in the light of other economic factors. Id. at 84. See also Senate Report at 219.

Clearly, the inexactness of the criteria for granting GSP beneficiary status is both intentional and necessary. However, this inexactness also greatly complicates the determination of beneficiary status and requires the President to examine, in effect, the totality of the recipients' economic status and projected growth.

The remainder of this submission analyzes Taiwan's status vis-a-vis the GSP program. The analysis establishes (1) that Taiwan's economy is not sufficiently advanced to permit withdrawal of GSP beneficiary status without severe dislocations of Taiwan's trade and (2) that, should Taiwan's beneficiary status be withdrawn, Taiwan's chief competitors in international trade should similarly lose GSP beneficiary status.

Table No. 1 presents comparative World Bank statistics which enable one to evaluate Taiwan's economic and social development vis-a-vis representative developed and developing countries. It is clear from these statistics that Taiwan occupies a position similar to that of Korea, Hong Kong and Singapore in most economic and social indicators.

TABLE 1.—SELECTED COMPARATIVE STATISTICS

Per capita GNP		Average annual growth (percent)		Average annual rate of inflation (percent)		Adult literacy rate (percent)		Life expectancy at birth (years)		Average annual growth rate (percent)				Percent of labor force in 1977 in—		
U.S. dollars, 1977		1960-77	1970-77	1960-77	1970-77	1977	1977	1977	1977	Exports	Imports	1960-77	1970-77	Agriculture	Industry	Services
Taiwan	1,170	6.2	4.1	11.0	11.0	82	72	72	72	23.7	16.7	17.9	13.5	34	27	39
Developed countries:																
United States	8,520	2.4	2.8	6.8	6.8	99	73	73	73	6.0	6.9	9.8	4.6	3	33	64
Federal Republic of Germany	8,160	3.3	3.2	5.9	5.9	99	72	72	72	10.2	7.0	10.0	6.2	5	48	47
Italy	3,440	3.7	4.4	14.0	14.0	98	73	73	73	13.5	6.8	9.7	2.3	13	47	40
Netherlands	7,150	3.7	5.3	8.0	8.0	99	73	73	73	9.9	6.5	9.4	4.3	6	45	49
United Kingdom	4,420	2.5	4.1	14.1	14.1	98	73	73	73	8.8	5.8	9.0	4.7	2	43	55
France	8,460	3.6	3.1	9.4	9.4	98	74	74	74	6.9	3.7	9.3	8.0	6	30	64
Australia	7,340	2.9	3.1	12.8	12.8	100	72	72	72	6.5	3.7	7.2	5.3	6	35	59
Japan	5,670	7.7	4.8	9.6	9.6	99	76	76	76	17.5	10.5	13.7	5.1	14	37	49
GSP beneficiaries:																
Honduras	410	1.5	3.0	6.5	6.5	57	57	57	57	11.1	6	11.7	1.0	63	15	22
Argentina	1,730	2.7	2.8	107.3	107.3	93	71	71	71	3.3	5.5	11.3	3.9	14	29	57
Mexico	1,120	4.8	2.0	37.5	37.5	76	65	65	65	3.3	1.9	6.4	3.9	34	29	37
Israel	2,850	7.4	16.7	17.4	17.4	88	72	72	72	10.9	10.2	8.7	4.7	8	33	41
Republic of Korea	820	7.4	16.7	17.4	17.4	88	72	72	72	35.2	30.7	20.1	12.4	45	33	22
Malaysia	930	3.9	3.3	7.1	7.1	81	63	63	63	6.1	5.2	2.7	6.1	44	20	36
Philippines	450	2.5	5.8	14.3	14.3	87	67	67	67	12.7	5.0	7.2	4.4	51	15	34
Hong Kong	2,590	6.5	2.3	8.0	8.0	90	72	72	72	12.7	6.5	9.2	5.9	2	57	41
Singapore	2,880	7.5	1.1	7.0	7.0	75	70	70	70	4.2	5.8	5.9	8.1	2	32	66

Source: The World Bank, "World Development Report, 1979."

Taiwan's 1977 per capita GNP of US\$1,170 places Taiwan substantially below Italy (\$3,440) and Ireland (\$2,880), the two lowest industrialized countries in regard to per capita GNP. In regard to other GSP beneficiary countries, Taiwan's per capita GNP is about 60 percent below that of Singapore, 55 percent below that of Hong Kong and 43 percent above that of Korea.

Taiwan's 6.2 percent average annual growth in per capita GNP from 1960 to 1977 is lower than that of Singapore (7.5 percent), Hong Kong (6.5 percent) or Korea (7.4 percent), but higher than the growth rate in the mature industrialized countries. For example, during the same period the United States experienced a 2.4 percent annual growth in per capita GNP; Germany, 3.3 percent; and Canada 3.6 percent. Of all the industrialized countries, only Japan, with a 7.7 percent growth rate, had a growth rate exceeding five percent.

Between 1970 and 1977 Taiwan experienced an 11 percent annual inflation—much higher than the rate in the United States (6.8 percent) and higher than the rate in Japan (9.6 percent). Hong Kong and Singapore experienced more modest inflation than Taiwan (8.0 percent and 7.0 percent, respectively), while Korea's 17.4 percent inflation rate was substantially higher than that of Taiwan.

Taiwan's 82 percent adult literacy rate in 1977 places Taiwan clearly below the 98-99 percent range of the developed countries, and below Hong Kong (90 percent) and Korea (91 percent) as well. Of the major LDC trade competitors in the Pacific rim, only Singapore had a lower literacy rate (75 percent) than Taiwan. As a group, these Pacific rim LDC's have literacy rates of roughly the same order of magnitude: clearly lower than the developed countries, but distinctly higher than many less-developed low- and middle-income countries. These Pacific rim middle-income countries clearly have much in common in regard to their stage on the "evolutionary" path prescribed by contemporary economics.

Taiwan's life expectancy at birth (72 years) is only slightly below the average of the industrialized countries (73 years) and is of roughly the same magnitude as that of Singapore (70 years) and Hong Kong (72 years).

Taiwan's foreign trade growth rate is second only to that of Korea. Exports from Taiwan grew at an average annual rate of 16.7 percent between 1970 and 1977; its imports grew at a rate of 13.5 percent. In regard to both imports and exports, however, Taiwan's growth rates in the 1970's failed to meet the growth rates of the 1960's (23.7 percent per year for exports and 17.9 percent per year for imports).

This failure to sustain the high growth rates of the 1960's is the result, indirectly, of the country's increasing industrialization: As Taiwan became increasingly industrialized, its output became increasingly energy-intensive. Consequently, the country became increasingly dependent on foreign petroleum. The energy crisis of 1973-74 thus severely curtailed the real growth of Taiwan's economy. Between 1970 and 1973, Taiwan's GNP in constant dollars increased at an annual rate of between 10.8 and 12 percent. In 1974, the real (constant dollars) growth in GNP plunged to 0.6 percent; in 1974 it increased to only 2.4 percent, while in 1976 it regained its earlier momentum, increasing at an annual rate of 11.5 percent. (Data from Taiwan Statistical Data Book, 1979, Table 3-2a).

Taiwan's extraordinary dependence on external trade may be seen by comparing the country's GNP with its external trade. In 1978, Taiwan's gross national product reached US\$24,009 million, while its total external trade was US\$23,714 million. Taiwan's total 1978 exports amounted to US\$12,687, or nearly 53 percent of the GNP. *Id.*, Tables 3-2a, 10-4.

Moreover, Taiwan is highly dependent on imported raw materials, as well as imported energy. In 1978, Taiwan imported US\$7,551 million in agricultural and industrial raw materials, or 68 percent of the country's total imports. *Id.*, Table 10-9. These industrial raw materials were translated into industrial products with an export value in 1978 of US\$11,309 million, or 47 percent of Taiwan's gross national product. *Id.*, Table 10-8.

The point of the foregoing analysis is this: In spite of Taiwan's high growth rate in external trade, the country remains precariously dependent on the vicissitudes of international markets, both for obtaining energy and raw materials and for finding outlets for its national production. Because of this extraordinary dependence, any diminution of Taiwan's comparative advantage could have adverse repercussions far in excess of what would be expected in a country whose reliance on international trade was less pronounced.

A similar dependence on the international economy and energy markets is evident in the external trade growth rates of Korea and Hong Kong. Both these trading countries were severely impacted by the 1973-1974 recession, and both experienced lower external trade growth rates in the 1970's than in the 1960's.

Of these countries' Pacific rim neighbors, Singapore and the Philippines experienced higher export growth in the 1970's than in the 1960's. As to Singapore, this anomaly is explained by the highly centralized structure of the economy. As to the Philippines, the anomaly is explained by the greater degree of labor-intensity in its exports and the greater proportion of exports that are commodities rather than finished goods.

The statistics relating to growth rates in external trade indicate, first, Taiwan's dependence on international market factors over which the country has no control and, second, that Taiwan remains a developing country, as do its Pacific rim LDC neighbors.

Taiwan's continuing status as a developing nation is, finally, evident from the sectorial breakdown of the nation's labor force. Whereas the industrialized countries have, at most, 14 percent of their labor force in agriculture, Taiwan has 34 percent of its population engaged in agriculture. Concomitantly, the percentage of Taiwan's labor force in industry is relatively small (27 percent, as opposed to 33 percent for the United States, 48 percent for the Federal Republic of Germany and 37 percent for Japan).

The sectorial breakdown of Taiwan's labor force puts Taiwan clearly in the order-of-magnitude category of Korea, which has 33 percent of its labor force in industry. Hong Kong and Singapore are obviously anomalous in regard to labor-force breakdown because these states have minimal arable land.

The preceding analysis demonstrates that:

1. Taiwan is still a developing country, for purposes of GSP;
2. In regard to eligibility for and graduation from the GSP program, Taiwan should be treated identically to Hong Kong, Korea and Singapore.

The data show that Taiwan is more advanced in certain regards than the majority of the less developed countries; for example, its life expectancy at birth is nearly as high as that of the developing countries. On the other hand, Taiwan remains clearly "developing" in regard to the percentage of its labor force engaged in agriculture.

If and when the President considers the graduation of Taiwan from the GSP program, we respectfully urge that the relationship between Taiwan and its Pacific rim competitors should be closely examined. As these countries have all benefited from GSP by increasing their industrial output, it is clear that any shift in regional competitiveness, including that which would be caused by one country's loss of GSP eligibility, would severely affect the country bearing the burden of that shift.

In conclusion, we urge that Taiwan, with its enormous dependence on foreign trade, should not be graduated from the GSP program; that the legal criteria for such graduation are not satisfied by Taiwan; and that Taiwan should be treated identically to its chief Pacific rim competitors in regard to GSP benefits.

We would welcome the opportunity to discuss this submission with a representative of the STR, and would appreciate being made aware of any proposals in regard to alterations in the GSP treatment of Taiwan.

Yours very truly,

MYRON SOLTER.
DAVID SIMON.

ATTACHMENT B

BREGMAN, ABELL, SOLTER & KAY,
Washington, D.C., July 2, 1979.

Re: GSP treatment of Christmas tree lamps

Mr. WILLIAM B. KELLY, Jr.,
Chairman, Trade Policy Staff Committee, Office of the Special Representative for Trade Negotiations, Washington, D.C.

DEAR MR. KELLY: This letter is written on behalf of the manufacturers and exporters of Christmas tree lamps from Taiwan to request that Christmas tree lamps from Taiwan be granted immediate eligibility for GSP treatment and that such eligibility be given effect retroactively to March 1, 1979.

In support of this request, we wish to advise you of the following facts:

Taiwan's 1977 per capita GNP of US\$1,170 places Taiwan substantially below Italy (\$3,440) and Ireland (\$2,880), the two lowest industrialized countries in regard to per capita GNP. In regard to other GSP beneficiary countries, Taiwan's per capita GNP is about 60 percent below that of Singapore, 53 percent below that of Hong Kong and 43 percent above that of Korea.

Taiwan's 6.2 percent average annual growth in per capita GNP from 1960 to 1977 is lower than that of Singapore (7.5 percent), Hong Kong (6.5 percent) or Korea (7.4 percent), but higher than the growth rate in the mature industrialized countries. For example, during the same period the United States experienced a 2.4 percent annual growth in per capita GNP; Germany, 3.3 percent; and Canada 3.6 percent. Of all the industrialized countries, only Japan, with a 7.7 percent growth rate, had a growth rate exceeding five percent.

Between 1970 and 1977 Taiwan experienced an 11 percent annual inflation—much higher than the rate in the United States (6.8 percent) and higher than the rate in Japan (9.6 percent). Hong Kong and Singapore experienced more modest inflation than Taiwan (8.0 percent and 7.0 percent, respectively), while Korea's 17.4 percent inflation rate was substantially higher than that of Taiwan.

Taiwan's 82 percent adult literacy rate in 1977 places Taiwan clearly below the 98-99 percent range of the developed countries, and below Hong Kong (90 percent) and Korea (91 percent) as well. Of the major LDC trade competitors in the Pacific rim, only Singapore had a lower literacy rate (75 percent) than Taiwan. As a group, these Pacific rim LDC's have literacy rates of roughly the same order of magnitude; clearly lower than the developed countries, but distinctly higher than many less-developed low- and middle-income countries. These Pacific rim middle-income countries clearly have much in common in regard to their stage on the "evolutionary" path prescribed by contemporary economics.

Taiwan's life expectancy at birth (72 years) is only slightly below the average of the industrialized countries (73 years) and is of roughly the same magnitude as that of Singapore (70 years) and Hong Kong (72 years).

Taiwan's foreign trade growth rate is second only to that of Korea. Exports from Taiwan grew at an average annual rate of 16.7 percent between 1970 and 1977; its imports grew at a rate of 13.5 percent. In regard to both imports and exports, however, Taiwan's growth rates in the 1970's failed to meet the growth rates of the 1960's (23.7 percent per year for exports and 17.9 percent per year for imports).

This failure to sustain the high growth rates of the 1960's is the result, indirectly, of the country's increasing industrialization: As Taiwan became increasingly industrialized, its output became increasingly energy-intensive. Consequently, the country became increasingly dependent on foreign petroleum. The energy crisis of 1973-74 thus severely curtailed the real growth of Taiwan's economy. Between 1970 and 1973, Taiwan's GNP in constant dollars increased at an annual rate of between 10.8 and 12 percent. In 1974, the real (constant dollars) growth in GNP plunged to 0.6 percent; in 1974 it increased to only 2.4 percent, while in 1976 it regained its earlier momentum, increasing at an annual rate of 11.5 percent. (Data from Taiwan Statistical Data Book, 1979, Table 3-2a).

Taiwan's extraordinary dependence on external trade may be seen by comparing the country's GNP with its external trade. In 1978, Taiwan's gross national product reached US\$24,000 million, while its total external trade was US\$23,714 million. Taiwan's total 1978 exports amounted to US\$12,687, or nearly 53 percent of the GNP. *Id.*, Tables 3-2a, 10-4.

Moreover, Taiwan is highly dependent on imported raw materials, as well as imported energy. In 1978, Taiwan imported US\$7,551 million in agricultural and industrial raw materials, or 68 percent of the country's total imports. *Id.*, Table 10-9. These industrial raw materials were translated into industrial products with an export value in 1978 of US\$11,300 million, or 47 percent of Taiwan's gross national product. *Id.*, Table 10-8.

The point of the foregoing analysis is this: In spite of Taiwan's high growth rate in external trade, the country remains precariously dependent on the vicissitudes of international markets, both for obtaining energy and raw materials and for finding outlets for its national production. Because of this extraordinary dependence, any diminution of Taiwan's comparative advantage could have adverse repercussions far in excess of what would be expected in a country whose reliance on international trade was less pronounced.

A similar dependence on the international economy and energy markets is evident in the external trade growth rates of Korea and Hong Kong. Both these trading countries were severely impacted by the 1973-1974 recession, and both experienced lower external trade growth rates in the 1970's than in the 1960's.

Of these countries' Pacific rim neighbors, Singapore and the Philippines experienced higher export growth in the 1970's than in the 1960's. As to Singapore, this anomaly is explained by the highly centralized structure of the economy. As to the Philippines, the anomaly is explained by the greater degree of labor-intensity in its exports and the greater proportion of exports that are commodities rather than finished goods.

The statistics relating to growth rates in external trade indicate, first, Taiwan's dependence on international market factors over which the country has no control and, second, that Taiwan remains a developing country, as do its Pacific rim LDC neighbors.

Taiwan's continuing status as a developing nation is, finally, evident from the sectorial breakdown of the nation's labor force. Whereas the industrialized countries have, at most, 14 percent of their labor force in agriculture, Taiwan has 34 percent of its population engaged in agriculture. Concomitantly, the percentage of Taiwan's labor force in industry is relatively small (27 percent, as opposed to 33 percent for the United States, 48 percent for the Federal Republic of Germany and 37 percent for Japan).

The sectorial breakdown of Taiwan's labor force puts Taiwan clearly in the order-of-magnitude category of Korea, which has 33 percent of its labor force in industry. Hong Kong and Singapore are obviously anomalous in regard to labor-force breakdown because these states have minimal arable land.

The preceding analysis demonstrates that:

1. Taiwan is still a developing country, for purposes of GSP;

2. In regard to eligibility for and graduation from the GSP program, Taiwan should be treated identically to Hong Kong, Korea and Singapore.

The data show that Taiwan is more advanced in certain regards than the majority of the less developed countries; for example, its life expectancy at birth is nearly as high as that of the developing countries. On the other hand, Taiwan remains clearly "developing" in regard to the percentage of its labor force engaged in agriculture.

If and when the President considers the graduation of Taiwan from the GSP program, we respectfully urge that the relationship between Taiwan and its Pacific rim competitors should be closely examined. As these countries have all benefitted from GSP by increasing their industrial output, it is clear that any shift in regional competitiveness, including that which would be caused by one country's loss of GSP eligibility, would severely affect the country bearing the burden of that shift.

In conclusion, we urge that Taiwan, with its enormous dependence on foreign trade, should not be graduated from the GSP program; that the legal criteria for such graduation are not satisfied by Taiwan; and that Taiwan should be treated identically to its chief Pacific rim competitors in regard to GSP benefits.

We would welcome the opportunity to discuss this submission with a representative of the STR, and would appreciate being made aware of any proposals in regard to alterations in the GSP treatment of Taiwan.

Yours very truly,

MYRON SOLTER.
DAVID SIMON.

ATTACHMENT B

BREGMAN, ABELL, SOLTER & KAY,
Washington, D.C., July 2, 1979.

Re: GSP treatment of Christmas tree lamps

Mr. WILLIAM B. KELLY, Jr.,

Chairman, Trade Policy Staff Committee, Office of the Special Representative for Trade Negotiations, Washington, D.C.

DEAR MR. KELLY: This letter is written on behalf of the manufacturers and exporters of Christmas tree lamps from Taiwan to request that Christmas tree lamps from Taiwan be granted immediate eligibility for GSP treatment and that such eligibility be given effect retroactively to March 1, 1979.

In support of this request, we wish to advise you of the following facts:

1. In February, 1978, Christmas tree lamps from Taiwan (TSUS 686.30) were appropriately declared ineligible for GSP benefits during 1978, because they had constituted over 50 percent of total imports of this item in 1977.

2. In February, 1979, Christmas tree lamps were declared ineligible for GSP benefits during 1979, although they constituted less than 50 percent by value of such imports in 1978.

3. In 1978, the value of U.S. imports of Christmas tree lamps from the Republic of Korea exceeded those from Taiwan. Nevertheless, Korean Christmas tree lamps are currently eligible for GSP treatment, while those from Taiwan are not.

4. As a consequence of the preceding facts (given in more detail below), we submit that:

a. The STR failed to consider adequately the competitive-need criteria for reeligibility for GSP benefits as to Christmas tree lamps from Taiwan.

b. Such denial of GSP benefits violates the most-favored-nation clause of the Treaty of Friendship, Commerce and Navigation currently in effect between the United States and Taiwan.

c. Even if such denial of GSP benefits were lawful, the President should exercise his discretion by declaring Christmas tree lamps from Taiwan eligible for GSP benefits in 1979.

We therefore request that Christmas tree lamps from Taiwan be declared eligible for GSP benefits forthwith, and that such eligibility be given retroactive effect so that U.S. importers may be enabled to recover illegally or inappropriately exacted import duties.

In further support of this request, we advise you of the following facts and arguments.

Christmas tree lamps (hereinafter sometimes referred to simply as lamps) are imported under items 686.3020 (miniature lamps) and 686.3040 (lamps other than miniature) of the Tariff Schedules of the United States. Lamps are eligible for GSP treatment.

On February 28, 1978, Taiwan's GSP benefits as to this item were withdrawn (43 Federal Register 8099, 8108, February 28, 1978). Such withdrawal was the result of Taiwan's having exceeded the 50 percent competitive need requirement of section 504(c)(1)(B) of the Trade Act of 1974. Consequently, during calendar year 1978, imports of Christmas tree lamps from Taiwan were not eligible for GSP benefits.

In 1979, Taiwan was again denied eligibility for GSP benefits on this item (44 Fed. Reg. 11729, 11740, March 2, 1979). In 1978, Taiwan's imports under TSUS 686.30 amounted to \$10.14 million; global total imports amounted to \$20.9 million (see table, below). Imports from Taiwan amounted to 48.57 percent of total imports in 1978.

At the same time, imports of lamps from Korea in 1978 amounted to \$10.18 million, or 48.74 percent of total imports, as shown in the following table.

VALUE OF IMPORTS OF CHRISTMAS TREE LAMPS, 1978 (TSUS 686.30)

	Value (thousands)
Global total.....	\$20,888,000
Korea:	
GSP.....	9,975,000
Non-GSP.....	206,000
Total.....	10,181,000
Taiwan:	
GSP.....	45,000
Non-GSP.....	10,099,000
Total.....	10,144,000
Korea as percent of global total.....	48.74
Taiwan as percent of global total.....	48.56

Source: Bureau of the Census.

On the basis of Taiwan's share of imports in 1978, Taiwan should have been declared reeligible for GSP benefits pursuant to section 504(c) (2) of the Trade Act of 1974, which states:

"A country which is no longer treated as a beneficiary developing country with respect to an eligible article * * * may be redesignated * * * a beneficiary developing country with respect to such article if imports of such article from such country did not exceed the [competitive need] limitations in paragraph (1) of this subsection during the preceding calendar year."

Taiwan clearly may have been redesignated a GSP beneficiary as to lamps in 1979, since its lamp exports constituted less than 50 percent of total U.S. imports in 1978. Accordingly, the question that remains is whether Taiwan should have been redesignated as eligible for those benefits. In other words: What are the criteria for redesignation of eligibility?

The legislative history of title V of the Trade Act of 1974 fails to clarify the criteria for redesignation of eligibility. The House bill did not have a redesignation provision, and the Senate and Conference Committee reports simply cite the existence of a redesignation provision without clarifying the criteria to be employed. (See Senate Report 93-1298, 93d Congress, 2d Session at 227 (1974); Conference Report 93-1644, 4 U.S. Code Congressional Administrative News 7398-99 (1974).)

One criterion, based in the philosophy of the competitive need limitations, is whether the failure to redesignate a country as eligible for GSP benefit would have a measurably adverse effect on that country. In other words, the criterion would specify that a country which could lawfully be redesignated should be redesignated if it had a competitive need therefor.

Analysis of import statistics demonstrates Taiwan's clear competitive need for redesignation of GSP eligibility as to Christmas tree lamps. Between 1977 and 1978, global lamp imports grew at a rate of 25 percent; lamp imports from Korea grew at a rate of 37 percent; and those from Taiwan grew at a rate of only 17 percent.

Taiwan's failure to increase its lamp exports at the global rate or at the Korean rate was clearly the result of Taiwan's loss of GSP benefits in 1978. Should Taiwan not be redesignated as an eligible country, it is likely that its competitive position will be further eroded in 1979.

Thus Taiwan meets the competitive need criterion imputed to the redesignation provisions of Title V of the Trade Act of 1974.

Parenthetically, we note that even if Taiwan had exceeded the competitive need limitations of section 504(c), it could have retained eligibility in virtue of section 504(c) (1) (B) (i)-(iii).

Taiwan's failure to be redesignated as eligible for GSP treatment of Christmas tree lamps is especially problematic because its lamp exports have been exceeded by those of Korea, although Korea has retained its GSP eligibility on this article. In economic terms, this underscores the propriety of inputting a competitive need criterion to the redesignation provisions.

As a legal matter, moreover, the disparate treatment of Taiwan and Korea, to the detriment of the former, involves a violation of Taiwan's most-favored-nation rights under United States-Taiwan trade agreements. These trade agreements, including the Treaty of Friendship, Commerce and Navigation, are legally binding under the terms of the Taiwan Relations Act, 93 Stat. 14, Public Law 96-9 (1979).

As a designated GSP beneficiary, Taiwan is entitled to those benefits which flow to GSP beneficiaries in general. As a GSP beneficiary having MFN status, Taiwan is entitled to GSP benefits on a par with those received by other beneficiary most favored nations. In the present case, Taiwan's exports of Christmas tree lamps should therefore be subject to at least the same treatment as is accorded to Korea, which has a greater share of the U.S. market and has nevertheless retained GSP benefits. See *John T. Bill Co., Inc. v. United States*, 104 F.2d 67, 26 C.C.P.A. (Customs) 67 (1939).

In view of the foregoing, we respectfully request that Taiwan be declared immediately reeligible for GSP benefits as to Christmas tree lamps. We further request that such reeligibility be made retroactive to March 1, 1979, the effective date of Executive Order 12134 (44 Fed. Reg. 11729 (1979)) denying such reeligibility to Taiwan.

We request that the STR expedite this request so that Taiwan's Christmas tree lamp producers will not experience a further erosion of their competitive position in 1979.

Yours very truly,

MYRON SOLTER,
DAVID SIMON,
*Counsel for Taiwan Manufacturers and
Exporters of Christmas Tree Lamps.*

SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION, INC.,
Washington, D.C., May 15, 1980.

JOHN M. MARTIN, JR.
*Chief Counsel, Committee on Ways and Means, U.S. House of Representatives,
Longworth House Office Building, Washington, D.C.*

DEAR MR. MARTIN: In connection with the hearings on the operation of the Generalized System of Preferences (GSP) held by the Subcommittee on Trade, Committee on Ways and Means, on May 8, 1980, the Synthetic Organic Chemical Manufacturers Association, Inc. (SOCMA) submits this written statement for consideration by the Subcommittee and inclusion in the record of the hearings.

SOCMA is an incorporated trade association whose membership comprises 115 companies which produce more than 5,000 chemical products and manufacture about 80 percent of the synthetic organic chemicals produced in the United States. A list of the membership, which includes both large and small companies is attached.

SOCMA has reviewed the President's Report, dated April 21, 1980, to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences. Generally speaking, SOCMA favors the changes to the GSP Program recommended in the Report. In particular, SOCMA is pleased to note that the Report has adopted some of the suggestions for change which SOCMA recommended last year to the GSP Subcommittee of the Office of the Special Representative for Trade Negotiations. Specifically, SOCMA suggested and the Report proposes: (a) a revised annual review schedule to allow interested parties additional time to prepare support and rebuttal briefs for interagency consideration; and (b) limiting GSP benefits given to more developed beneficiaries for particular products in which they have demonstrated competitiveness.

SOCMA also notes with approval the statement in the Report that the President will exercise his authority to ensure "graduation" of more industrialized developing countries from the GSP program. The Report states that, in exercising this authority, the President will take into account the development level of beneficiaries, their competitive position in the product concerned and the overall economic interests of the United States. These factors are very broad and vague and SOCMA hopes that the process of "graduation" will be implemented in appropriate cases.

In this respect, SOCMA suggests further consideration of its suggestion, not adopted in the Report, that criteria be developed which would mandatorily trigger active consideration of the need for such graduation. The "triggering criteria" could be expressed in the alternative, so that if any *one* of the criteria were met, the process of active consideration would be mandated. Examples of "triggering criteria" could include readily identifiable indicia such as: a country's total value of exports to the United States, a country's balance of trade with the United States, or a country's per capita income or per capita gross national product. Such "triggering criteria" would be easy to apply and would insure that the process of "graduation" is undertaken when a beneficiary country reaches a clearly identifiable level of development, rather than relying upon the broad generalizations concerning graduation appearing in the Report.

Finally, to the extent to which international consultations may be necessary before the graduation procedures are implemented, SOCMA urges that those consultations should be required to be undertaken expeditiously with the full knowledge and advice of the relevant Industry Sector Advisory Committees.

Respectfully submitted.

RONALD A. LANG,
Executive Director.

STATEMENT OF UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA,
AFL-CIO, WILLIAM KONYHA, GENERAL PRESIDENT

The Subcommittee, in the course of its review of the Generalized System of Preferences, will receive much testimony on the need for aid to underdeveloped countries and free trade. We do not dispute the need to help poor people in underdeveloped countries. However, we feel present U.S. trade policies, particularly the Generalized System of Preferences, does not achieve this objective. We would like to provide the Subcommittee with an example that illustrates the effect of U.S. trade policies on one U.S. company and its employees. The example also shows that whatever the intended objectives of the GSP program, they are undermining the wage standards and working conditions that have been established in this country without necessarily aiding workers in underdeveloped countries.

Keller Industries produces a variety of building and consumer products, including lawn furniture. In 1979, Keller employed 5,000 workers; slightly over 1,700 of these workers were employed in five plants which produced steel and aluminum tubular lawn furniture. The U.S. Department of Labor determined that one of the plants, located in Williamsburg, Kentucky, was closed in the spring of 1980 because of increased imports of lawn furniture. (TSUS Item 727.55) The increase in imports was primarily from Taiwan, according to Keller's own survey.

A petition for Trade Adjustment Assistance was filed and the Labor Department's Bureau of International Labor Affairs (ILAB) certified the workers at the Williamsburg plant eligible for TAA because of increased imports of metal outdoor furniture. ILAB also found that Keller's customers had decreased purchases from the company and had increased purchases of imported furniture.

Another Keller lawn furniture plant is located in McKenney, Virginia. The 250 production and maintenance workers in this plant are represented by the United Brotherhood of Carpenters and Joiners of America. The United Brotherhood of Carpenters represents 800,000 workers throughout the United States and Canada. Its members include both construction workers and various types of industrial workers including workers in the plywood, lumber, millwork, cabinet and furniture industries.

The McKenney plant and its employees face economic hardship and an uncertain future because of increased imports from Taiwan. This year, the plant started its annual summer shutdown one month early because orders had fallen off from customers which had switched to Taiwanese imports. A survey conducted by Keller Industries shows that 4.2 million Taiwanese lawn chairs and lounges were purchased by Keller's customers in 1979. The company estimates that the total number of Taiwanese units sold in the United States in 1979 exceeded 8 million.

The history of imports of metal tubular lawn furniture goes back to the early 1970's. Prior to that, American producers largely dominated the market. Taiwan, by producing a lower quality, cheaper version of the American product, was able to penetrate the United States market beginning in the early 1970's. In response, U.S. companies began producing lower quality furniture and effectively competed with the Taiwanese. In 1976, the item came under the Generalized System of Preferences and the duty on Taiwanese lawn furniture was effectively reduced from 10 percent to 0 percent. Since 1976, U.S. manufacturers have been unable to compete with Taiwanese goods, to which they have lost an increasing share of the U.S. market. As a consequence, the remaining U.S. producers of metal lawn furniture are in danger of going out of business.

To put these events and their consequences in more human terms, we would like to refer back to Keller's McKenney, Virginia, lawn furniture plant and to the 250 workers there who are represented by the United Brotherhood of Carpenters. McKenney is a town of 500, located in southern Dinwiddie County, which is part of Virginia's tobacco growing region. Dinwiddie County is a relatively poor area. In the summer, when the McKenney plant is normally closed, the primary source of income for many of the plant's employees is tobacco sharecropping. In 1969, over 15 percent of the families in the county had incomes below the poverty level and in 1970, an equal percentage of families received Aid to Families with Dependent Children. While wages at the McKenney plant are not high by urban standards (hourly wages average just under \$4.00) the alternative for many of the plant's employees is a subsistence income derived from farming.

If the present flood of Taiwanese imports continues, the McKenney plant faces an uncertain future. Inasmuch as there are few other sources of non-farm employment in the area, the closing of the McKenney plant would force employees

either to leave the area or to lower their standard of living to poverty levels. Some employees would receive government assistance and many would fall below the poverty level. Trade Adjustment Assistance benefits would only postpone these events temporarily; the benefits are not a long term solution if the plant closes.

A major cause of the present situation in McKenney and in the lawn furniture industry is the granting of duty-free, GSP treatment to imports of lawn furniture. Section 501 of the Trade Act states that in granting such duty-free treatment, the President must consider both the effect on the economic development of the beneficiary country and the anticipated impact on U.S. domestic producers. Despite this latter provision in the law, granting GSP treatment to this item has been disastrous to domestic producers and their employees.

U.S. producers of lawn furniture are quickly going out of business and workers in the industry are losing their jobs. Taiwanese have been able to undersell U.S. produced goods, not because of more efficient production techniques, better management, or more productive workers; but because of significantly lower wage rates. GSP, by giving Taiwanese producers duty-free status, has given them an added incentive to use the poverty-level wages in that country to undermine U.S. wages and working conditions.

As for the economic development of the beneficiary country mentioned in section 501, we see no reason to believe that GSP treatment of Taiwanese imports will lead to economic betterment of that country's workers.

Taiwan is the leading beneficiary of GSP; in 1978, Taiwan accounted for over \$1.4 billion in GSP imports which was 27.5 percent of the total imports of all GSP items. Despite the large amount of tariff benefits that Taiwan receives under GSP, there are no assurances, or even indications, that these benefits are aiding the economic conditions of workers in that country.

GSP does not require that the companies which export GSP items from Taiwan actually be owned by Taiwanese. Multinationals which withdraw profits from Taiwan to invest elsewhere and which have no real interest in Taiwan's economic development, may be the major beneficiaries of GSP treatment of Taiwan imports. The program does not favor developing countries which protect their workers through minimum wage and other protective labor legislation; the program also does not favor countries which encourage, rather than suppress, the development of a free trade union movement.

Given these gaps in the GSP program, we question whether the program is aiding the economic betterment of workers in developing countries or whether it is merely aiding certain companies and countries to continue to exploit their workers. U.S. trade policy should distinguish between companies and countries which protect their workers and those which do not. We believe in international trade, but we believe such trade should be used to encourage decent working conditions and wages and to promote better methods of production; such trade should not provide an incentive for developing countries to exploit their own workers.

As the program now operates, GSP also encourages other countries to undermine the decent working conditions and wage standards we have been able to achieve in this country. The effect of these policies is also to encourage U.S. companies to transfer operations overseas.

We oppose the GSP program as it now operates. We favor either abolition of the entire program or safeguards to ensure that; (a) wages and working conditions in this country are not endangered, and (b) tariff reductions actually aid the economic betterment of workers in developing countries.

U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.,
Alexandria, Va., May 15, 1980.

The CHAIRMAN,
Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This letter briefly presents our Council's position on the granting and terminating of duty-free tariff preferences to developing countries under the Generalized System of Preference (GSP). Our Council is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall public interest (the Council's only standard).

Consistent with the criteria established by the trade legislation, termination of such preferences—or decisions not to provide them on particular products in the first place (aside from statutory exemptions)—should be limited to situations where such duty-free imports from qualifying countries are seen as threatening serious injury to U.S. industries. Even then, the decision should be only one component of a coherent industry-adjustment strategy addressing the real problems and needs of the particular industry. Initial denial or later removal of duty-free status (for reasons other than specific statutory requirements) is a form of government help; it should be part of a coherent, balanced program of government help to that industry, including correction of any government statutes and regulations deemed inexcusably unfair to the industry's efforts to adjust to foreign competition. Duty-free status should subsequently be introduced or restored upon completion of the adjustment effort.

Denial or removal of duty-free status—or, put differently, continuation or restoration of a subsidy—should be accompanied by (a) full government knowledge of what the domestic industry intends to do with this assistance extended at public expense, (b) government approval of a definitive adjustment strategy, and (c) systematic government review of the progress of such an adjustment effort, to ensure that all parties, including the government, are doing all that should be done to foster the success of this effort. Such a policy context for denying or terminating duty-free status is not provided for in existing legislation, although certain steps in this direction appear to be within the discretionary power of the President. Presidential opportunities along these lines, however, have been neglected. There does not appear to be any legal basis at this time for insisting on compliance with the conditions set forth in points (a) and (b) above for denying or removing GSP duty-free status.

We regret that U.S. policy is not currently oriented toward such reform, and that there is no effort underway to correct this shortcoming. Such an effort might help materially to include more effective development planning in developing countries assisted by GSP, and induce at least the most developed of the developing countries to subscribe to GATT reforms on nontariff distortions or world trade. It would also contribute materially to greatly needed preparation for the definitive free-trade initiative which the industrialized countries need to launch in the not-too-distant future.

It should be added that total reform of the code of fair international competition—there is still a long way to go—will not come until an all-out free-trade agreement, compelling such reform, is negotiated by the advanced countries, however elusive the goal of total free trade is likely to be. Nothing less than a total commitment to "free trade" is likely to induce a total commitment to "fair trade." Nor will the nation face up totally to sound solutions to the real problems of its weaker industries until it commits itself to total free trade as an international economic objective. Expectation of free trade will impel, indeed compel, a national development strategy to, among other purposes, deal conclusively and convincingly with these domestic issues.

How firmly the nation adheres to its duty-free commitments under the GSP program is a test of our national resolve to secure a truly open international economic system and as sound a national economy as we are capable of achieving. The statutory exemptions from the tariff-preference system are a measure of how weak this resolve currently is. They simplistically provide government help but without coherent adjustment strategies addressing the real problems and needs of these industries. These exemptions should top the list of industries to whose problems the government should move quickly to give incisively constructive attention, looking toward inclusion of these industries in the GSP program and in an overall free-trade strategy.

Sincerely yours,

DAVID J. STEINBERG, *President.*